Interim Report at September 30, 2012

Contents

This document has been translated into English solely for the convenience of the readers.
In the event of discrepancy, the Italian language prevails.

The Telecom Italia Group

The Business Units

DOMESTIC

The **Domestic Business Unit** operates as the consolidated 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 fibre optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

CORE DOMESTIC

- Consumer
- Business
- Top
- National Wholesale
- Other (Support Structures)

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle Group

- Telecom Italia Sparkle S.p.A.
- Lan Med Nautilus Group

BRAZIL

The **Brazil Business Unit (Tim Brasil Group)** offers services using UMTS and GSM technologies. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the portfolio of services has been expanded by offering fibre optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

Tim Brasil Serviços e Participações S.A.

- Tim Participações S.A.
  - Intelig Telecomunicações Ltda
  - Tim Celular S.A.

ARGENTINA

The **Argentina Business Unit (Sofora - Telecom Argentina 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 Personal (with the Personal brand); in Paraguay it operates in the mobile sector with the company Núcleo.

Sofora Telecomunicaciones S.A. (Sofora)

- Nortel Inversora S.A.
  - Telecom Argentina S.A.
    - Telecom Argentina USA Inc.
    - Telecom Personal S.A.
      - Núcleo 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 analogue and digital broadcasting networks as well as accessory services and additional radio signal broadcasting services.

Telecom Italia Media

- La 7 S.r.l.
- MTV group
- TI Media Broadcasting (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 S.p.A.

- Advalso
- 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

Key Financial and Operating Data - Telecom Italia Group

Highlights — First Nine Months of 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 industry, which the Group responded to both through an expansion of the offer range and continuous pursuit of operating efficiencies. As a result, in the first nine months of 2012, the Group continued the growth in consolidated Revenues and the protection of Profits, which remained solid and are among the best in its segment.
These results enabled the Group to continue pursuing the reduction of Debt and to confirm the objective of cash generation for the current year, the key priority of the Group Business Plan.

- Consolidated Revenues, in line with the first nine months of the prior year, stood at 22 billion euros (+1.6% in organic terms), while EBITDA of 8.9 billion euros fell 3.0% (-2.1% in organic terms).
- Operating profit (loss) (EBIT) came to 4.9 billion euros. This showed an income balance of 1.8 billion euros in the first nine months of 2011, and was impacted by the impairment loss on Core Domestic goodwill of 3.2 billion euros. In organic terms, EBIT decreased by 0.6%.
- Profit attributable to owners of the Parent came to 1.9 billion euros (compared to a loss of 1.3 billion euros at the same date of the prior year). On a comparable basis, excluding the impairment loss of 3.2 billion euros recorded in the first nine months of 2011, the profit would have been in line with the same period of the prior year.
- Cash flows generated from operating activities during the first nine months, amounting to 4.1 billion euros, more than compensated requirements for the payment of dividends, taxes and finance expenses. Adjusted Net Financial Debt at the end of the period was 29.5 billion euros, down 929 million euros compared to the end of 2011.

Financial Highlights

(millions of euros)		3rd Quarter 2012	3rd Quarter 2011	9 months to 09/30/2012 (a)	9 months to 09/30/2011 (b)	Change % Reported (a/b)	Change % Organic
Revenues		**7,268**	**7,516**	**22,061**	**22,059**	0.0	1.6
EBITDA	(1)	**3,001**	**3,181**	**8,860**	**9,137**	(3.0)	(2.1)
EBITDA Margin		*41.3%*	*42.3%*	*40.2%*	*41.4%*	*(1.2) pp*	
Organic EBITDA Margin		*41.7%*	*42.9%*	*40.4%*	*41.9%*	*(1.5) pp*	
EBIT		**1,695**	**1,872**	**4,900**	**1,809**	n.s.	(0.6)
EBIT Margin		*23.3%*	*24.9%*	*22.2%*	*8.2%*	*n.s.*	
Organic EBIT Margin		*23.8%*	*24.9%*	*22.4%*	*22.9%*	*(0.5) pp*	
Profit (loss) for the period attributable to owners of the Parent		**681**	**786**	**1,926**	**(1,256)**	n.s.	
Capital expenditures (CAPEX)		**1,111**	**1,153**	**3,380**	**3,190**	6.0	
				09/30/2012	**12/31/2011**	**Change**	
Adjusted net financial debt	(1)			**29,485**	**30,414**	(929)	

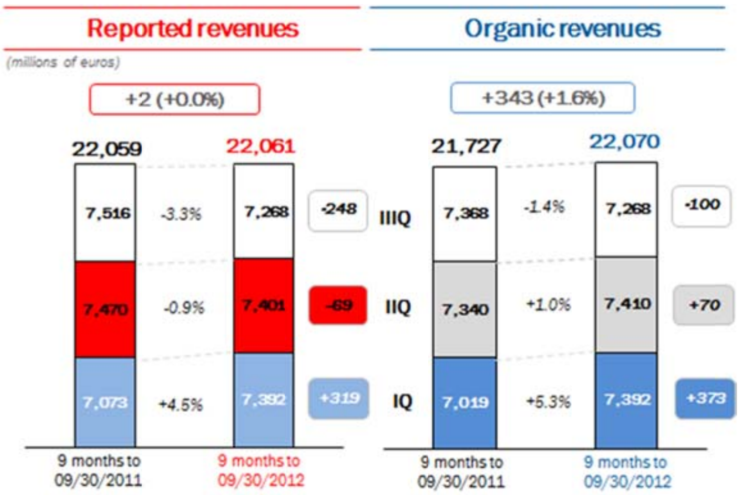
(1) Details are provided in the section “Alternative Performance Measures”.
Starting from the first half of 2012 the Telecom Italia Group applied early adoption and retrospective application of revised IAS 19 (Employee Benefits). Accordingly, the comparative figures for 2011 have been restated on a consistent basis. Further details and information on the effects on the periods under comparison are provided under “Interim Consolidated Financial Statements – Telecom Italia Group”.

Consolidated Financial Performance

Revenues

Revenues amount to 22,061 million euros for the first nine months of 2012, in line with the results of the first nine months of 2011 (22,059 million euros). In terms of the organic change, consolidated revenues increased 1.6% (+343 million euros).
Specifically, the organic change in revenues is calculated by excluding:

- the effect of exchange differences (1) equal to -324 million euros, for the most part relating to the Brazil Business Unit (-355 million euros) and to a lesser extent to the Argentina Business Unit (+13 million euros) and other Group companies (+18 million euros);
- the effect of the change in the scope of consolidation (-8 million euros) in connection with the sale of the subsidiary Loquendo (Domestic Business Unit) on September 30, 2011;
- the effect of a reduction in revenues of 9 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)	9 months to 09/30/2012		9 months to 09/30/2011		Change		
		% of total		% of total	amount	%	% organic
Domestic	13,413	60.8	14,069	63.8	(656)	(4.7)	(4.7)
Core Domestic	*12,701*	*57.6*	*13,420*	*60.8*	*(719)*	*(5.4)*	*(5.2)*
International Wholesale	*1,050*	*4.8*	*1,011*	*4.6*	*39*	*3.9*	*2.1*
Brazil	5,595	25.4	5,395	24.5	200	3.7	11.0
Argentina	2,804	12.7	2,324	10.5	480	20.7	20.0
Media, Olivetti and Other Operations	402	1.8	489	2.2	(87)		
Adjustments and Eliminations	*(153)*	*(0.7)*	*(218)*	*(1.0)*	65		
Total consolidated	**22,061**	**100.0**	**22,059**	**100.0**	**2**	**0.0**	**1.6**

(1) The average exchange rates used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), equalled 2.45541 in the first nine months of 2012 and 2.29395 in the first nine months of 2011. For the Argentine peso, the exchange rates used equalled 5.71461 in the first nine months of 2012 and 5.74763 in the first nine months of 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.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reported a declining trend in organic Revenues of 656 million euros (-4.7%) compared to the first nine months of 2011. Specifically, in the third quarter, revenues slowed down, with a decrease of 374 million euros (-7.9%) compared to the third quarter 2011.
This trend is partly attributable to the entry into force - from July 2012 – of the new termination prices on the mobile network (MTR), which involve a reduction of 53% in the rate (from 5.3 eurocents to 2.5 eurocents), a significant change on the rate revisions of the previous year. The impact on consolidated revenues from incoming mobile traffic in the third quarter 2012, as a result of the new price list, amounts to -76 million euros. Net of the impact of the new MTR price list, the drop in revenues in the third quarter would be -6.3% on the same period of 2011, representing a decline in any event compared to the first half results, due to the worsening of the macroeconomic situation and the competitive scenario. More to the point:

- Organic revenues from services amounted to 12,936 million euros, a decrease of 4.5% compared to the same period of the previous year. In particular, revenues from services in the Mobile business shrank 8.2% compared to the same period of 2011, with a result for the third quarter of -13.0%. This decline is attributable to competition and the economic climate, as well as the previously mentioned impact of the new MTR price list (third quarter performance net of the impact of the new price list would be -7.5%, still down compared to the first half). The Fixed-line business recorded falling revenues from services of 269 million euros (-2.8% compared to 2011, -5.2% in the third quarter).
- Product revenues totalled 486 million euros and were 40 million euros lower than the first nine months of 2011. The growth in Mobile devices, driven by a greater commercial push on mobile internet-enabled devices, in fact, 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.

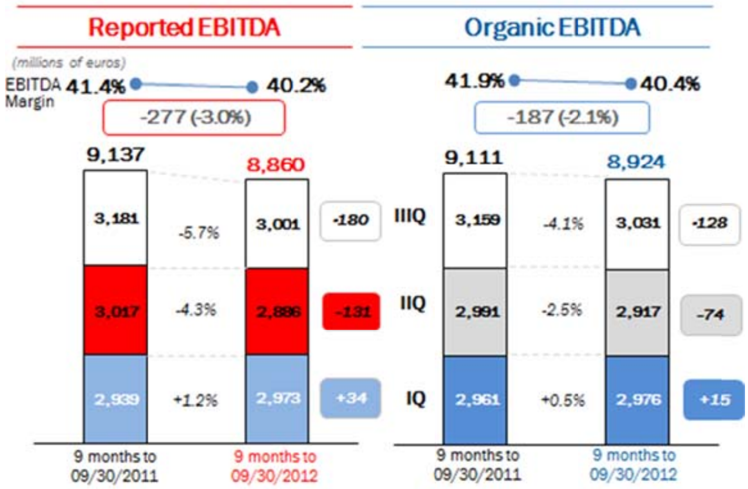
As for the **Brazil Business Unit**, organic revenues grew 11.0% in the first nine months of 2012 compared with the same period of the prior year. Revenues from services confirm the positive trend (+9.1% compared to the first nine months of 2011), propelled by the growth of the customer base (reaching approximately 69 million lines at September 30, 2012, an increase of 17.2% compared to September 30, 2011). Handset revenues also show a positive trend (+27.8% compared to the first nine months of 2011).

As for the **Argentina Business Unit**, organic revenues gained 20.0% compared to the first nine months of 2011 (+467 million euros). Specifically, mobile business revenues (+378 million euros) were up 22.8% while the fixed-line business, affected by a decade of partial freezing of regulated rates, grew 13.0% vs. the corresponding period of 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 8,860 million euros, decreasing 277 million euros (-3.0%) compared to the corresponding period of the prior year, with an EBITDA margin of 40.2% (41.4% in the first nine months of 2011). Organic EBITDA fell 187 million euros (-2.1%) from the same period of the prior year. The organic EBITDA margin is down 1.5 percentage points (40.4% in the first nine months of 2012 against 41.9% in the first nine months of 2011) owing to a higher percentage of total revenues from South America where margins are lower than the Domestic business as well as higher sales of mobile devices, aimed at a greater penetration of data services.



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

(millions of euros)	9 months to 09/30/2012		9 months to 09/30/2011		Change		
		% of total		% of total	amount	%	% organic
Domestic	6,696	75.6	6,953	76.1	(257)	(3.7)	(4.6)
EBITDA margin	*49.9*		*49.4*			*0.5 pp*	–
Brazil	1,460	16.5	1,444	15.8	16	1.1	9.2
EBITDA margin	*26.1*		*26.8*			*(0.7) pp*	*(0.4) pp*
Argentina	825	9.3	759	8.3	66	8.7	8.0
EBITDA margin	*29.4*		*32.7*			*(3.3) pp*	*(3.2) pp*
Media, Olivetti and Other Operations	(118)	(1.4)	(20)	(0.2)	(98)		
Adjustments and Eliminations	*(3)*	–	*1*	–	*(4)*		
Total consolidated EBITDA	**8,860**	**100.0**	**9,137**	**100.0**	**(277)**	**(3.0)**	**(2.1)**
EBITDA margin	*40.2*		*41.4*			*(1.2) pp*	*(1.5) pp*

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

- **Acquisition of goods and services (9,676 million euros; 9,442 million euros in the first nine months of 2011).** The increase of 234 million euros is largely due to the surge in the commercial and technical costs of the Argentina Business Unit (+303 million euros) and the Brazil Business Unit (+100 million euros, including a negative exchange rate effect of 217 million euros), needed to support the growth of the customer base, voice and data traffic volumes, sales of mobile internet-enabled handsets and, consequently, sales in the Latin America area. These changes were offset by the domestic business, which reduced purchases by 179 million euros compared to the first nine months of 2011, partly due to a decrease in the portion of revenues to be paid to other operators, owing to the reduction in mobile termination rates.

- **Employee benefits expenses (2,901 million euros; 2,922 million euros in the first nine months of 2011).** These record a decrease of 21 million euros. The change was influenced by:
  - in the Italian component, a decrease in employee benefits expenses (-131 million euros), mainly due to the reduction in the average headcount of the salaried workforce of 1,348 compared to the first nine months of 2011;
  - the increase in the foreign component (+95 million euros), which reported an increase in the average headcount of the salaried workforce totalling 1,426 in the Brazil and Argentina Business Units;
  - expenses of 17 million euros, arising from the agreements signed with the labour unions of Olivetti I-Jet and its subsidiary Olivetti Engineering S.A. aimed at dealing with the excess staff of the company put into a wind-up. At September 30, 2011 expenses for mobility under Law 223/91 of 2 million euros were recorded for SSC.
- **Other operating expenses (1,339 million euros; 1,271 million euros in the first nine months of 2011).** The increase of 68 million euros is primarily attributable to the Argentina Business Unit (+60 million euros) and the Brazil Business Unit (+34 million euros, including a negative exchange rate effect of 35 million euros) and is partially offset by the Domestic Business Unit (-74 million euros). In particular:
  - writedowns and expenses in connection with credit management (393 million euros; 358 million euros in the first nine months of 2011) include 249 million euros relating to the Domestic Business Unit (257 million euros in the first nine months of 2011), 81 million euros to the Brazil Business Unit (74 million euros for the first nine months of 2011) and 38 million euros to the Argentina Business Unit (22 million euros in the first nine months of 2011);
  - provision charges (107 million euros; 120 million euros in the first nine months of 2011) include 67 million euros relating to the Brazil Business Unit (49 million euros in the first nine months of 2011), 15 million euros to the Domestic Business Unit (49 million euros in the first nine months of 2011) and 13 million euros to the Argentina Business Unit (16 million euros in the first nine months of 2011);
  - telecommunications operating fees and charges (480 million euros; 467 million euros in the first nine months of 2011) include 380 million euros relating to the Brazil Business Unit (378 million euros in the first nine months of 2011), 54 million euros to the Argentina Business Unit (43 million euros in the first nine months of 2011) and 45 million euros to the Domestic Business Unit (44 million euros in the first nine months of 2011).

Depreciation and amortization
Details are as follows:

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Change
Amortization of intangible assets with a finite useful life	1,606	1,625	(19)
Depreciation of property, plant and equipment – owned and leased	2,361	2,544	(183)
Total	**3,967**	**4,169**	**(202)**

The decrease in depreciation and amortization charges mainly relates to the Domestic Business Unit (-272 million euros), offset by the increase in depreciation and amortization charges of the Argentina Business Unit (+64 million euros).

Gains (losses) on disposals of non-current assets
At September 30, 2012 the item amounted to 10 million euros, represented by net gains on disposals of non-current assets, principally referring to the Domestic Business Unit. At September 30, 2011, the item amounted to 23 million euros and included the gains, net of related incidental expenses, of 35 million euros, connected to the completion of the sale of the investment in Loquendo (Domestic Business Unit).

Impairment losses on non-current assets

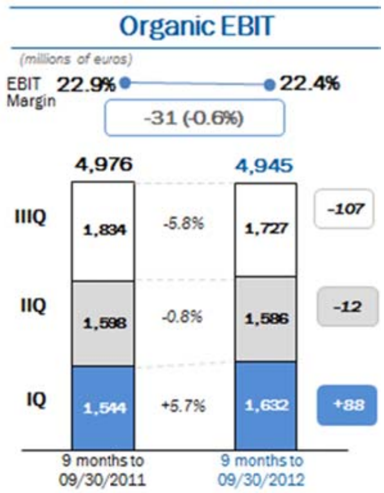
Impairment losses on non-current assets amounted to 3 million euros at September 30, 2012, mainly attributable to the Olivetti Business Unit.

In the first half of 2012, the Group, as in previous years, repeated the impairment test on goodwill The outcome of this test did not require an impairment charge. During the third quarter of 2012, there were no events, circumstances or variations in key variables such as to require updating of the impairment test.

In the first nine months of 2011, the impairment charge of goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit was 3,182 million euros.

EBIT

EBIT amounts to 4,900 million euros (1,809 million euros in the first nine months of 2011, including the above-mentioned impairment charge to goodwill of the Core Domestic Cash-Generating Unit of 3,182 million euros). The organic change in EBIT was a negative 31 million euros (-0.6%), with an organic EBIT margin of 22.4% (22.9% in the first nine months of 2011, -0.5 percentage points).



Other income (expenses) from investments

Neither income nor expenses from investments were recorded in the first nine months of 2012.

In the first nine months of 2011, the income balance of Other income (expenses) from investments was 15 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) showed an expense balance of 1,400 million euros (an expense balance of 1,496 million euros in the first nine months of 2011), with an improvement of 96 million euros. This reduction is essentially due to the positive change in several hedging derivatives, attributable to market fluctuations linked to currency translation. These fluctuations are purely accounting in nature, and do not result in any monetary settlement. Other positive effects, net of expenses effectively incurred, derive from the capitalization of finance expenses relating to the Domestic Business Unit's acquisition of user rights to LTE mobile telephony frequencies.

Income tax expense

Income tax expense is 1,249 million euros, an increase of 30 million euros compared to the first nine months of 2011 mainly due to the increase in the taxable base of the Brazil and Argentina Business Units.

Profit (loss) for the period

The profit (loss) for the period can be analysed as follows:

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011
Profit (loss) for the period	**2,245**	**(921)**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	1,926	(1,245)
Profit (loss) from Discontinued operations/Non-current assets held for sale	–	(11)
Profit (loss) for the period attributable to owners of the Parent	**1,926**	**(1,256)**
Non-controlling interests:		
Profit (loss) from continuing operations	319	335
Profit (loss) from Discontinued operations/Non-current assets held for sale	–	–
Profit (loss) attributable to Non-controlling interests	**319**	**335**

Consolidated Financial Performance for the Third Quarter of 2012

(millions of euros)	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	Change (a-b)		
			amount	%	% organic
Revenues	**7,268**	**7,516**	**(248)**	**(3.3)**	**(1.4)**
EBITDA	**3,001**	**3,181**	**(180)**	**(5.7)**	**(4.1)**
EBITDA margin	41.3%	42.3%	(1.0) pp		
Organic EBITDA margin	*41.7%*	42.9%	(1.2) pp		
EBIT	**1,695**	**1,872**	**(177)**	**(9.5)**	**(5.8)**
EBIT margin	23.3%	24.9%	(1.6) pp		
Organic EBIT margin	*23.8%*	24.9%	(1.1) pp		
Profit (loss) before tax from continuing operations	**1,210**	**1,350**	**(140)**	**(10.4)**	
Profit (loss) from continuing operations	**785**	**900**	**(115)**	**(12.8)**	
Profit (loss) from Discontinued operations/Non-current assets held for sale	–	–	–		
Profit (loss) for the period	**785**	**900**	**(115)**	**(12.8)**	
Profit (loss) for the period attributable to owners of the Parent	**681**	**786**	**(105)**	**(13.4)**	

Revenues

Consolidated revenues for the third quarter of 2012 show a fall of 248 million euros, decreasing 3.3% compared with the third quarter of 2011; in organic terms, the decrease amounts to 1.4%. This change is the result of the contraction in the domestic area (-7.9% in organic terms compared to the same period of the prior year), only partly offset by the positive performance of the Brazil and Argentina Business Units which, compared with the corresponding period of the prior year, generated increases in organic terms of 8.0% and 18.2%, respectively, in the third quarter of 2012.

EBITDA

Consolidated EBITDA for the third quarter of 2012 is down 180 million euros (–5.7%). In organic terms, the decrease amounts to 4.1%, essentially attributable to the Domestic Business Unit. The Reported EBITDA margin reached 41.3%, down 1.0 percentage points over the same period of the prior year. The organic EBITDA margin, instead, is down 1.2 percentage points to 41.7% (compared with 42.9% for the third quarter of 2011).

EBIT

Consolidated EBIT for the third quarter of 2012 is 1,695 million euros, decreasing 177 million euros compared with the same three months in the prior year (-9.5%). Organic Consolidated EBIT decreased 5.8%. The Reported EBIT margin is 23.3% for the third quarter of 2012, down 1.6 percentage points over the same period of the previous year. The organic EBIT margin, on the other hand, fell 1.1 percentage points to 23.8% compared with the third quarter of 2011.

Profit (loss) for the period attributable to owners of the Parent

The profit for the third quarter attributable to owners of the Parent is 681 million euros, down 105 million euros (-13.4%) compared with the same period of the previous year.

Financial and Operating Highlights – The Business Units of the Telecom Italia Group

Starting from the Half-year Financial Report at June 30, 2012 the Telecom Italia Group early adopted and retrospectively applied the revised IAS 19 (Employee Benefits). Accordingly, the comparative figures of 2011 for the Business Units have been restated on a consistent basis.

Domestic

Starting from the Half-year Financial Report at June 30, 2012, the company Matrix was moved to Other Operations and is consequently no longer part of Core Domestic in the Domestic Business Unit. The periods under comparison have been reclassified accordingly.

(millions of euros)	3rd Quarter 2012	3rd Quarter 2011	9 months to 09/30/2012	9 months to 09/30/2011	Change %		
	(a)	(b)	(c)	(d)	(a/b)	(c/d)	Organic (c/d)
Revenues	4,365	4,734	13,413	14,069	(7.8)	(4.7)	(4.7)
EBITDA	2,290	2,426	6,696	6,953	(5.6)	(3.7)	(4.6)
EBITDA margin	*52.5*	*51.2*	*49.9*	*49.4*	*1.3 pp*	*0.5 pp*	*0.0 pp*
EBIT	1,407	1,523	4,012	826	(7.6)	n.s.	(1.1)
EBIT margin	*32.2*	*32.2*	*29.9*	*5.9*	*0.0 pp*	*24.0 pp*	*1.1 pp*
Headcount at period-end (number)(*)			55,200	(**) 55,047		0.3	

(*) The 153 headcount change includes the effects resulting from the acquisition, as of January 1, 2012, of the Contact Center business and the relative 249 resources from the company Advalso in the Olivetti Business Unit.

(**) Headcount at December 31, 2011.

Fixed

	09/30/2012	12/31/2011	09/30/2011
Physical accesses at period-end (thousands)	21,195	21,712	21,789
of which Retail physical accesses at period-end (thousands)	14,133	14,652	14,827
Broadband accesses in Italy at period-end (thousands)	8,992	9,089	9,072
of which Retail broadband accesses (thousands)	7,030	7,125	7,141
Network infrastructure in Italy:			
access network in copper (millions of km – pair, distribution and connection)	112.6	112.2	112.0
access network in optical fiber (millions of km – fiber)	4.9	4.6	4.4
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,500	7,500
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)	76.4	108.9	80.9
Domestic traffic	64.5	93.3	69.4
International traffic	11.9	15.6	11.5
DownStream and UpStream traffic volumes (PBytes)	1,598	1,937	1,407

Mobile

	09/30/2012	12/31/2011	09/30/2011
Number of lines at period-end (thousands)	32,123	32,227	31,679
Change in lines (%)	(0.3)	3.9	2.1
Churn rate (%) (1)	19.5	21.9	16.4
Total average outgoing traffic per month (millions of minutes)	3,667	3,633	3,619
Total average outgoing and incoming traffic per month (millions of minutes)	4,904	4,843	4,825
Mobile browsing volumes (PBytes) (2)	69.2	75.9	54.4
Average monthly revenues per line (in euros) (3)	15.7	17.4	17.5

(1) The data refer 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 according to the net contribution of each market segment to the CGUs results, excluding infrasegment 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 for the third quarter and first nine months of 2012, overall and by segment of clientele / business area, compared with the corresponding periods of 2011 are presented in the following tables:

Core Domestic

(millions of euros)	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	9 months to 09/30/2012 (c)	9 months to 09/30/2011 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	4,131	4,488	12,701	13,420	(8.0)	(5.4)	(5.2)
Consumer (1)	*2,153*	*2,313*	*6,585*	*6,812*	*(6.9)*	*(3.3)*	*(3.3)*
Business (2)	*672*	*749*	*2,110*	*2,306*	*(10.4)*	*(8.5)*	*(8.5)*
Top (2)	*737*	*845*	*2,311*	*2,567*	*(12.8)*	*(10.0)*	*(10.0)*
National Wholesale	*521*	*522*	*1,556*	*1,576*	*(0.2)*	*(1.3)*	*(0.7)*
Other	*48*	*59*	*139*	*159*	*(18.6)*	*(12.6)*	*(7.9)*
EBITDA	2,235	2,367	6,544	6,779	(5.6)	(3.5)	(4.2)
EBITDA margin	*54.1*	*52.7*	*51.5*	*50.5*	*1.4 pp*	*1.0 pp*	*0.5 pp*
EBIT	1,376	1,496	3,932	739	(8.0)	n.s.	(0.8)
EBIT margin	*33.3*	*33.3*	*31.0*	*5.5*	*0.0 pp*	*n.s.*	*1.4 pp*
Headcount at period-end (number)			54,192	(*) 54,038		0.3	

(*) Headcount at December 31, 2011.

(1) Starting from the Half-Year Financial Report at June 30, 2012, the company Matrix was included in Other Operations and is consequently no longer part of the Consumer segment. The periods under comparison have been reclassified accordingly.

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

International Wholesale

(millions of euros)	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	9 months to 09/30/2012 (c)	9 months to 09/30/2011 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	341	369	1,050	1,011	(7.6)	3.9	2.1
of which third parties	241	259	741	690	(6.9)	7.4	4.8
EBITDA	58	63	161	183	(7.9)	(12.0)	(15.9)
EBITDA margin	*17.0*	*17.1*	*15.3*	*18.1*	*(0.1) pp*	*(2.8) pp*	*(3.3) pp*
EBIT	31	28	81	88	10.7	(8.0)	(14.1)
EBIT margin	*9.1*	*7.6*	*7.7*	*8.7*	*1.5 pp*	*(1.0) pp*	*(1.4) pp*
Headcount at period-end (number)			1,008	(*) 1,009		(0.1)	

(*) Headcount at December 31, 2011.

Revenues

In a deteriorating economic climate and a market characterised by sharp tariff reductions (on traditional services) and intensive competition, the decline in revenues, particularly in the third quarter, was also affected by the entry into force of the new mobile termination rate (MTR) price list, which involves a reduction of 53% in the rate (from 5.3 eurocents to 2.5 eurocents) as well as the introduction at European level of a cap on price of roaming traffic.
In this scenario, the performance for the nine months, in terms of organic change compared to the prior year, showed a slight recovery on the levels recorded at September 30, 2011 (-4.7% in the first nine

months of 2012, compared to -5.8% recorded in the first nine months of 2011). This is due to the policy of defending the customer portfolio and ARPU (Average Revenue Per User), the effectiveness of the new commercial policies which have slowed down the trend in falling prices, and the development of new services, particularly Fixed Broadband and Mobile Internet.

In detail:

- **Consumer:** the Consumer segment reports a reduction in revenues of 227 million euros (-3.3%) in the first nine months of 2012 compared to the same period of 2011. This confirms the overall recovery in the nine months compared to the decrease seen in 2011 thanks particularly to the stabilization of the erosion of voice revenues (both Fixed and Mobile), strong expansion of Browsing revenues and an increase in handset sales (+95 million euros, +60%), particularly Mobile Internet-enabled devices. The reduction in revenues compared to 2011, entirely due to revenues from services (-312 million euros, -4.7%), can be ascribed to traditional Voice and Messaging services. Such contraction is for the most part offset by higher Mobile Internet revenues (+54 million euros, +14.1%) and Fixed Broadband accesses (+23 million euros, +3.2%). In the third quarter, however, revenues slowed (-6.9% compared to the same period of 2011, -4.4% net of the impact of the aforementioned new MTR price list), particularly for Mobile revenues which - in addition to the disruption in incoming termination revenue - is also affected by more intensive competition, with a resulting contraction in commercial and economic performance.
- **Business:** the Business segment reports lower revenues of 196 million euros (-8.5%) in the first nine months of 2012 compared to the same period of 2011. This decrease is mainly attributable to the erosion of the customer base (-6.7% compared to 2011 in the Fixed Line area and -6.6% in the Mobile area, excluding data only lines) and, to a lesser extent, to a downturn in ARPU (Average Revenue Per User) for voice services. In the third quarter, revenues decreased by 10.4%, showing worse performance than in the previous periods, mainly attributable to the impact of the new mobile termination rates and a downturn in Data Roaming revenues due to the introduction of the price cap in the European Union.
- **Top**: the Top segment reports lower revenues of 256 million euros (-10.0%) in the nine months of 2012 compared to the same period of 2011. In particular, the decrease in revenues from services amounted to 167 million euros (-7.3%), mainly attributable to a drop in prices for traditional voice and data services in the Fixed Line area and the Mobile area, only partly offset by the development of innovative services, particularly Mobile Internet. As previously mentioned for the Business segment, performance slowed in the third quarter (-12.8%), attributable to the reduction in termination rates and a decrease in Data Roaming revenues (as a result of the aforementioned introduction of the price cap in the European Union).
- **National Wholesale:** the National Wholesale segment highlights a decrease in revenues of 20 million euros in the first nine months of 2012 compared to 2011 (-1.3%) that can be traced largely to lower carrier and interconnection revenues, only in part offset by the growth of access services to alternative operators. In the third quarter of 2012 there was a slight decrease in revenues compared to 2011 (-1 million euros; -0.2%).

International Wholesale Revenues

For the first nine months of 2012, International Wholesale revenues amount to 1,050 million euros, increasing 39 million euros (+3.9%) compared with the same period of the prior year. This performance is mainly attributable to the IP/Data business (+6.5%) and the Voice business (+5.9%). The other areas of business, multinational customers in particular (-11.2%), were impacted by strong pressures on prices caused by market competition as well as the continuing actions to rationalize the business segment according to an increasingly selective approach in terms of the customer portfolio and traffic strategy.

EBITDA

EBITDA of the Domestic Business Unit is 6,696 million euros for the first nine months of 2012, down 257 million euros compared with the corresponding period of 2011 (-3.7%). The EBITDA margin is 49.9% and an improvement compared to the same period of 2011 (+0.5 percentage points). The contraction in revenues from services impacted EBITDA (-616 million euros, -347 million euros in the

third quarter) and was offset only in part by the reduction in the portion of revenues to be paid to other operators (primarily ascribable to the reduction in termination rates) and the changes in efficiency obtained by selective control and containment of operating expenses.
Organic EBITDA is 6,713 million euros in the first nine months of 2012 (-321 million euros, -4.6% compared to the same period of 2011); the organic EBITDA margin is 50%, stable compared to the same period of 2011.

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

(millions of euros)	**9 months to 09/30/2012**	**9 months to 09/30/2011**	**Change**
Acquisition of goods and services	4,739	4,918	(179)
Employee benefits expenses	2,103	2,220	(117)
Other operating expenses	431	505	(74)

In particular:

- *acquisition of goods and services*: shrunk 179 million euros (-3.6%) compared to the corresponding period of 2011. Such contraction is mainly due to a decrease in the portion of revenues due to other TLC operators, owing principally to the reduction in Mobile termination rates;
- *employee benefits expenses*: fell 117 million euros from the first nine months of 2011 (-5.3%), attributable mostly to the reduction in the average headcount of the salaried workforce by 895 compared to the first nine months of 2011, countered by higher expenses as a result of the acquisition, as of January 1, 2012, of the Contact Center business and the relative 249 resources from the company Advalso in the Olivetti Business Unit;
- *other operating expenses* decreased by 74 million euros compared to the corresponding period of 2011, principally as a result of lower provision charges (-34 million euros, due to lower regulatory provisions) and sundry expenses (-36 million euros, mainly due to the absence of the compensation, recorded in 2011, due to the termination of the Competence Center contract with Telecom Italia Media). Details are as follows:

(millions of euros)	**9 months to 09/30/2012**	**9 months to 09/30/2011**	**Change**
Writedowns and expenses in connection with credit management	249	257	(8)
Provision charges	15	49	(34)
Telecommunications operating fees and charges	45	44	1
Indirect duties and taxes	76	73	3
Sundry expenses	46	82	(36)
Total	**431**	**505**	**(74)**

EBIT

EBIT in the first nine months of 2012 is 4,012 million euros. In the first nine months of 2011, it was 826 million euros, and included the impairment charge to goodwill of the Core Domestic CGU of 3,182 million euros. The EBIT margin is 29.9% (5.9% in the first nine months of 2011).
Organic EBIT amounted to 4,008 million euros, down 44 million euros (-1.1%) compared to the organic EBIT in the first nine months of 2011 (4,052 million euros). The organic EBIT margin is 29.9% (28.8% in the first nine months of 2011).

Brazil

	(millions of euros)				(millions of Brazilian reais)						
	3rd Quarter 2012	3rd Quarter 2011	9 months to 09/30/2012	9 months to 09/30/2011	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	9 months to 09/30/2012 (c)	9 months to 09/30/2011 (d)	Change % (a/b)	(c/d)	Organic (c/d)
Revenues	1,862	1,896	5,595	5,395	4,722	4,371	13,738	12,375	8.0	11.0	11.0
EBITDA	473	496	1,460	1,444	1,201	1,144	3,586	3,313	5.0	8.2	9.2
EBITDA margin	*25.4*	*26.2*	*26.1*	*26.8*	*25.4*	*26.2*	*26.1*	*26.8*	*(0.8) pp*	*(0.7) pp*	*(0.4) pp*
EBIT	223	243	689	683	567	560	1,692	1,567	1.2	8.0	10.1
EBIT margin	*12.0*	*12.8*	*12.3*	*12.7*	*12.0*	*12.8*	*12.3*	*12.7*	*(0.8) pp*	*(0.4) pp*	*(0.1)pp*
Headcount at period-end (number)							11,309	(*) 10,539		7.3	

(*) Headcount at December 31, 2011.

	09/30/2012	09/30/2011
Number of lines at period-end (thousands)	69,394	(*)64,070
MOU (minutes/month)	130.8	127.7
ARPU (reais)	18.8	21.2

(*) Assets at December 31, 2011.

Main financial data

Revenues

Revenues total 13,738 million reais in the first nine months of 2012, up 1,363 million reais compared to the corresponding period of 2011 (+11.0%). Service revenues are 12,100 million reais, up from 11,094 million reais in the same period of 2011 (+9.1%). Revenues from the sale of products increased from 1,281 million reais in the first nine months of 2011 to 1,638 million reais in the same period of 2012 (+27.9%), reflecting a higher penetration of the customer base with high-value handsets (smartphones and webphones), serving as an important leverage for the expansion of revenues from data services.

Mobile Average Revenues Per User (ARPU) for the first nine months of 2012 dropped to 18.8 reais, compared to 21.2 reais in the same period of 2011 (-11.5%). The trend in ARPU and revenues from services was affected by intensive competition which led to a reduction in unit prices in the voice business, as well as the reduction in the interconnection rate for mobile operators, in force since February 2012.

Total lines at September 30, 2012 number 69.4 million, up 8.3% compared to December 31, 2011 and 17.2% compared to September 30, 2011, corresponding to a 26.8% market share of the lines.

Revenues for the third quarter of 2012 total 4,722 million reais, increasing 351 million reais compared with the corresponding period of 2011 (4,371 million reais).

EBITDA

EBITDA in the first nine months of 2012 is 3,586 million reais, up 273 million reais on the same period of 2011 (+8.2%). The increase in the EBITDA is supported by higher revenues mainly relating to outgoing voice traffic and VAS, offset basically by higher termination charges due to the increase in traffic volumes and to the costs strictly linked to the change in the customer base. The EBITDA margin is 26.1%, down 0.7 percentage points compared to the same period of 2011.
Organic EBITDA in the first nine months of 2012 is 3,628 million reais, up 307 million reais on the same period of 2011 (+9.2%). The organic EBITDA margin is 26.4%, down 0.4 percentage points compared to the same period of 2011. The increase in the EBITDA margin of revenues from services is countered by the higher contribution of revenues from the sale of smartphones and webphones.
Organic EBITDA was calculated excluding administrative fines imposed by the Brazilian telecommunications regulator (ANATEL) and sundry, non-organic expenses totalling 42 million reais. Specifically, the pending disputes with ANATEL concerning 2007-2009, amount to 26 million reais and were recorded after the Council of the Brazilian regulatory body confirmed its measures against TIM Brasil. Other sundry, non-organic expenses refer specifically to writedowns in connection with credit management. TIM Brasil shall implement the necessary legal measures in order to recover the value of these receivables. Organic EBITDA in the first nine months of 2011 took account of sundry, non-organic expenses of 8 million reais.
EBITDA for the third quarter of 2012 is 1,201 million reais, increasing 57 million reais compared with the corresponding period of 2011 (1,144 million reais).

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

	(millions of euros)		(millions of Brazilian reais)		
	9 months to 09/30/2012 (a)	**9 months to 09/30/2011** (b)	**9 months to 09/30/2012** (c)	**9 months to 09/30/2011** (d)	**Change** (c-d)
Acquisition of goods and services	3,405	3,305	8,362	7,582	780
Employee benefits expenses	257	239	630	549	81
Other operating expenses	560	526	1,375	1,206	169
Changes in inventories	(21)	(54)	(52)	(125)	73

- *acquisition of goods and services:* totals 8,362 million reais (7,582 million reais for the first nine months of 2011). The increase of 10.3% compared to the first nine months of 2011 (+780 million reais) can be analysed as follows:
  - +355 million reais for the portion of revenues to be paid to other TLC operators;
  - +271 million reais for the purchases referring primarily to product cost;
  - +173 million reais for rent and lease costs;
  - -19 million reais for external services costs;
- *employee benefits expenses*: amount to 630 million reais, increasing 81 million reais compared with the first nine months of 2011 (+14.8%). The average headcount grew from 9,099 in the first nine months of 2011 to 9,917 in the same period of 2012. The percentage of employee benefits expenses to revenues is 4.6%, increasing 0.2 percentage points compared with the first nine months of 2011;
- *other operating expenses:* amount to 1,375 million reais, increasing 14.0% (1,206 million reais for the first nine months of 2011). Such expenses consist of the following:

(millions of Brazilian reais)	9 months to 09/30/2012	9 months to 09/30/2011	Change
Writedowns and expenses in connection with credit management	199	169	30
Provision charges	166	113	53
Telecommunications operating fees and charges	933	868	65
Indirect duties and taxes	22	22	-
Sundry expenses	55	34	21
Total	**1,375**	**1,206**	**169**

EBIT

EBIT is 1,692 million reais, increasing 125 million reais compared with the first nine months of 2011. This increase is due to a higher contribution by EBITDA partially offset by higher depreciation and amortization charges of 145 million reais (1,890 million reais in the first nine months of 2012, compared to 1,745 million reais in the same period of 2011).
The organic change in EBIT is a positive 159 million reais compared with the same period of 2011, with an EBIT margin of 12.6% (12.7% for the first nine months of 2011), as a result of the non-organic items described above.
EBIT for the third quarter of 2012 amounts to 567 million reais, an increase of 7 million reais compared to the same period of 2011.

Argentina

	(millions of euros)				(millions of Argentine pesos)				Change %	
	3rd Quarter 2012	3rd Quarter 2011	9 months to 09/30/2012	9 months to 09/30/2011	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	9 months to 09/30/2012 (c)	9 months to 09/30/2011 (d)	(a/b)	(c/d)
Revenues	981	813	2,804	2,324	5,645	4,774	16,024	13,357	18.2	20.0
EBITDA	275	253	825	759	1,583	1,487	4,714	4,363	6.5	8.0
EBITDA margin	*28.0*	*31.1*	*29.4*	*32.7*	*28.0*	*31.1*	*29.4*	*32.7*	*(3.1) pp*	*(3.3) pp*
EBIT	123	121	378	378	710	713	2,162	2,175	(0.4)	(0.6)
EBIT margin	*12.6*	*14.9*	*13.5*	*16.3*	*12.6*	*14.9*	*13.5*	*16.3*	*(2.3) pp*	*(2.8) pp*
Headcount at period-end (number)(*)							16,774	(**) 16,350		2.6

(*) Includes employees with temp work contracts: 3 at September 30, 2012 and 1 at December 31, 2011.
(**) Headcount at December 31, 2011

	09/30/2012	12/31/2011	Change amount	Change %
Fixed-line				
Lines at period-end (thousands)	4,140	4,141	(1)	0.0
ARBU (Average Revenue Billed per User) (Argentine pesos)	47.7	(°) 45.4	2.3	5.1
Mobile				
Lines at period-end (thousands)	21,179	20,342	837	4.1
Telecom Personal lines (thousands)	18,909	18,193	716	3.9
% postpaid lines (**)	*33%*	*32%*		*+1 pp*
MOU Telecom Personal (minutes/month)	98	(°) 98	-	-
ARPU Telecom Personal (Argentine pesos)	55.8	(°) 49.8	6.0	12.0
Núcleo mobile lines (thousands)(***)	2,270	2,149	121	5.6
% postpaid lines (**)	*18%*	*17%*		*+1 pp*
Broadband				
Broadband accesses at period-end (thousands)	1,612	1,550	62	4.0
ARPU (Argentine pesos) (****)	99.2	(°) 85.5	13.7	16.0

(°) Data relating to the first nine months of 2011.
(**) 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 for the first nine months of 2012 amount to 16,024 million pesos, increasing 2,667 million pesos (+20.0%) compared with the corresponding period of 2011 (13,357 million pesos) thanks to the growth of the broadband and mobile customer bases, in addition to the relative average revenue per user (ARPU). Revenues for the third quarter of 2012 total 5,645 million pesos, increasing 871 million pesos compared with the corresponding period of 2011 (4,774 million pesos). The main source of revenues for the Argentina Business Unit is mobile telephony which accounts for about 72% of consolidated revenues, with an increase of almost 23% compared with the first nine months of 2011.

Fixed-line telephony service: the number of fixed lines at September 30, 2012 remained more or less the same 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 (Average Revenue Billed per User) rose by 5.1% compared to the first nine months of 2011, thanks to the sale of plans which include minutes of traffic and value-added services. ARBU also benefits from increases in the prices of both value-added services and the spread of traffic plans.

Mobile telephony service: Telecom Personal mobile lines in Argentina grew by 716 thousand compared with the end of 2011, arriving at a total of 18,909 thousand lines at September 30, 2012, 33% of which are postpaid. At the same time, thanks to an increase in high-value customers and clear leadership in the smartphone segment, the ARPU (Average Revenue Per User) gained 12%, reaching 55.8 pesos (49.8 pesos in the first nine months of 2011). A large part of this growth can be traced to Value-Added Services (including text messaging) and the Mobile Internet service which, on the whole, account for approximately 52% of revenues from mobile telephony services in the first nine months of 2012.

In Paraguay, the Núcleo customer base grew about 6% compared to December 31, 2011 and at September 30, 2012 reached 2,270 thousand lines, 18% of which are postpaid.

Broadband: Telecom Argentina's total portfolio of broadband lines at September 30, 2012 reached 1,612 thousand accesses, with an increase of 62 thousand accesses compared to the end of 2011 and representing 4% growth. ARPU (Average Revenue per User) grew by 16%, reaching 99.2 pesos (85.5 pesos in the first nine months of 2011) mainly due to the elimination of certain discounts granted to new customers and the increase in prices charged in the third quarter of 2012.

EBITDA

EBITDA shows an increase of 351 million pesos (+8.0%) compared to the first nine months of 2011, reaching 4,714 million pesos for the first nine months of 2012. The EBITDA margin is 29.4%, down 3.3 percentage points compared to the same period of 2011, mainly due to higher costs for the acquisition of goods and services. EBITDA for the third quarter of 2012 is 1,583 million pesos, increasing 96 million pesos compared with the corresponding period of 2011 (1,487 million pesos).

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

	(millions of euros)		(millions of Argentine pesos)		
	9 months to 09/30/2012	**9 months to 09/30/2011**	**9 months to 09/30/2012**	**9 months to 09/30/2011**	**Change**
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	1,294	991	7,396	5,694	1,702
Employee benefits expenses	421	342	2,408	1,968	440
Other operating expenses	306	245	1,746	1,410	336
Changes in inventories	(39)	(10)	(224)	(55)	(169)

- *acquisition of goods and services:* totals 7,396 million pesos (5,694 million pesos for the first nine months of 2011). The increase of 29.9% compared to the same period of the prior year (+1,702 million pesos) is mainly due to higher external service costs for 1,007 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise for 549 million pesos;
- *employee benefits expenses* stand at 2,408 million pesos, increasing 440 million pesos compared with the first nine months of 2011 (+22.4%). This increase comes from salary rises, as a result of periodical revisions in union agreements, largely linked to inflation, which are only partly offset by the

reduction in other employee benefits expenses for a total of approximately 73 million pesos. Moreover, an increase is recorded in the average number of employees in the mobile area. The percentage of employee benefits expenses to revenues is 15.0%, increasing 0.3 percentage points compared with the first nine months of 2011;

- *other operating expenses:* amount to 1,746 million pesos, increasing 23.8% (1,410 million pesos over the first nine months of 2011). Such expenses consist of the following:

(millions of Argentine pesos)	9 months to 09/30/2012	9 months to 09/30/2011	Change
Writedowns and expenses in connection with credit management	218	125	93
Telecommunications operating fees and charges	306	250	56
Indirect duties and taxes	1,144	938	206
Sundry expenses	78	97	(19)
Total	**1,746**	**1,410**	**336**

EBIT

EBIT fell by 13 million pesos (-0.6%) in the first nine months of 2012 to 2,162 million pesos, mainly as a result of higher depreciation and amortization. The EBIT margin is 13.5%, down 2.8 percentage points compared to the same period of the prior year. EBIT for the third quarter of 2012 is 710 million pesos, decreasing 3 million pesos compared with the corresponding period of 2011.

Media

On May 9, 2012 the Board of Directors of Telecom Italia Media acknowledged the decision of the Board of Directors of Telecom Italia S.p.A. to start the process of selling the Media segment. As a result, in May 2012, a corporate restructuring was initiated, which resulted in the establishment of LA7 S.r.l., a wholly-owned subsidiary of Telecom Italia Media S.p.A. With effect as of September 1, 2012, the television assets became part of this new company, through the contribution of a business segment by Telecom Italia Media S.p.A.

(millions of euros)	3rd Quarter 2012	3rd Quarter 2011	9 months to 09/30/2012	9 months to 09/30/2011	Change %		
	(a)	(b)	(c)	(d)	(a/b)	(c/d)	Organic (c/d)
Revenues	41.3	51.4	160.7	169.6	(19.6)	(5.2)	(5.2)
EBITDA	(10.3)	18.2	(26.4)	27.1	n.s.	n.s.	n.s.
EBITDA margin	*(24.9)*	*35.4*	*(16.4)*	*16.0*			
EBIT	(26.2)	4.0	(72.0)	(16.3)	n.s.	n.s.	n.s.
EBIT margin	*(63.4)*	*7.8*	*(44.8)*	*(9.6)*			
Headcount at period-end (number)			805	(*) 765		5.2	

(*) Headcount at December 31, 2011.

	09/30/2012	09/30/2011
La7 audience share Free to Air (average during the period, in %)	3.4	3.7
Gross advertising revenues (millions of euros)	163.9	162.9

At September 30, 2012, Telecom Italia Media Broadcasting's three Digital Multiplexes cover 94.9% of the Italian population.

Revenues

Revenues amount to 160.7 million euros for the first nine months of 2012, decreasing 8.9 million euros compared with 169.6 million euros for the first nine months of 2011. Specifically:

- revenues for LA7[1] for the first nine months of 2012, before intragroup eliminations, amount to 89.0 million euros, down by 8.9 million euros compared to the corresponding period of 2011. The change is due to the increase in total gross advertising revenues which in the first nine months of 2012 expanded by 3.7 million euros, or +4.5%, over the corresponding period of 2011; this increase only partially offset the absence of revenues from the Competence Center activities which ceased operations in September 2011 and had generated revenues of 13.3 million euros in the first nine months of the prior year. Advertising revenues particularly benefited from channel La7's daily average audience share which reached 3.4% in the first nine months of 2012 and also from channel La7d's net advertising revenues in the first nine months of 2012 which totalled 5.7 million euros (+46.6%);
- MTV group revenues come to 39.9 million euros, before intragroup eliminations, decreasing 13.5 million euros compared with the first nine months of 2011 (53.4 million euros). This reduction is principally due to lower net advertising revenues (27.7 million euros in the first nine months of 2012 compared to 34.4 million euros in the first nine months of 2011);

[1] In 2011 and up to June 2012, this Business area was called TI Media – La7, and included Corporate as well as television activities.

- revenues from Network Operator activities (TIMB), before intragroup eliminations, total 56.3 million euros, compared to 40.7 million euros in the first nine months of 2011, increasing 15.6 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 for the first nine months of 2012 is a negative 26.4 million euros, down by 53.5 million euros compared to the corresponding period of 2011 which, it should be noted, included the compensation income of 20.5 million euros for early termination of the Competence Center contract with Telecom Italia S.p.A.; organic EBITDA decreased by 33.0 million euros. Specifically:

- EBITDA of LA7 was -47.9 million euros, down 57.8 million euros compared to the first nine months of 2011 (9.9 million euros, including the compensation described above). On a comparable basis the reduction was 37.3 million euros. This result largely reflects higher operating costs connected mostly with the programming costs of channels La7 (+23.9 million euros) and La7d (+2.3 million euros), due to the launch of new programs and new faces compared to the first nine months of 2011, aimed at consolidating and extending the current viewing targets and laying the foundation for implementation of the future growth strategy. The result was also adversely affected by the absence of profits from the Competence Center business (13.3 million euros of revenues in the first nine months of 2011) which ceased operations in September 2011;
- EBITDA of the MTV group is -6.5 million euros, with a negative change of 10.3 million euros compared to the first nine months of 2011 mainly as a result of the contraction in advertising revenues;
- EBITDA relating to network operator activities is 32.5 million euros, improving 14.1 million euros over the first nine months of 2011. This result was influenced by the above increase in sales while operating costs are slightly higher (1.4 million euros, +5.9%) compared to the corresponding period of 2011.

EBIT

EBIT is negative by 72.0 million euros, compared to a negative 16.3 million euros in the corresponding period of 2011, representing a decline of 55.7 million euros; excluding the aforementioned income of 20.5 million euros from the results of the first nine months of 2011, the decline amounts to 35.2 million euros. The figure was driven substantially by the change in EBITDA, illustrated above.

Olivetti

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

(millions of euros)	3rd Quarter 2012 (a)	3rd Quarter 2011 (b)	9 months to 09/30/2012 (c)	9 months to 09/30/2011 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	55	65	185	226	(15.4)	(18.1)	(11.9)
EBITDA	(20)	(12)	(58)	(37)	(66.7)	(56.8)	24.3
EBITDA margin	*(36.4)*	*(18.5)*	*(31.4)*	*(16.4)*			
EBIT	(23)	(13)	(64)	(40)	(76.9)	(60.0)	20.0
EBIT margin	*(41.8)*	*(20.0)*	*(34.6)*	*(17.7)*			
Headcount at period-end (number)			803	(*) 1,075		(25.3)	

(*) Headcount at December 31, 2011.

Revenues

Revenues amount to 185 million euros in the first nine months of 2012, decreasing 41 million euros compared to the corresponding period of the prior year. Organic revenues, calculated on a comparable scope of consolidation, to adjust for the above transfer to Telecontact Center S.p.A. (17 million euros as of September 2011) and net of a favourable exchange rate movement of 1 million euros, decreased by 25 million euros (-11.9%). If the revenues under the agreements with the Parent, Telecom Italia S.p.A., regulating brands and patents are also excluded, the reduction is 20 million euros (-9.8%).
The decrease in revenues is largely associated with lower sales for 11 million euros in Italy, particularly in the indirect channel (SME and professional offices), the channel most exposed to the current market crisis; for 4 million euros, this decrease was due to lower sales in the International and Latin America areas, due to the cancellation of product supply contracts with unsatisfactory margins; and lastly, lower product supply contracts with Telecom Italia for 5 million euros.
For the third quarter of 2012, revenues amount to 55 million euros (65 million euros for the third quarter of 2011), recording a decline of 10 million euros from the third quarter of 2011 (-15.4%).

EBITDA

The item recorded a negative 58 million euros, worsening compared to the 21 million euros in the same period of the prior year. The result was affected by provision charges for restructuring expenses and other winding up expenses totalling 30 million euros, following the start of the process of winding up Olivetti I-Jet S.p.A., in line with the process to reposition the business unit's activities in keeping with the shift towards a paperless world and mobile applications. Excluding these expenses, the organic change in EBITDA is a positive 9 million euros (+24.3%) thanks to both the improved percentage margin and the reduction in costs for 11 million euros (lower fixed and labour costs). These two phenomena more than offset the lower absolute margins linked to the fall in sales. The change in the scope of consolidation had no impact on EBITDA.

In the third quarter of 2012, reported EBITDA was a negative 20 million euros (negative 12 million euros in the third quarter of 2011). Organic EBITDA in the third quarter of 2012 was a negative 6 million euros, improving by 6 million euros compared to the same period of 2011.

EBIT

EBIT was a negative 64 million euros, compared to negative 40 million euros at September 30, 2011, declining by 24 million euros. The result was affected by the expenses and provision charges described above in relation to the performance of EBITDA, as well as an additional 2 million euros in impairment losses on assets linked to the approval of the winding up of Olivetti I-Jet S.p.A. Excluding these items, organic EBIT improved by 8 million euros, rising from -40 million euros in the first nine months of 2011 to -32 million euros in the first nine months of 2012.

Consolidated Financial Position and Cash Flows Performance

Non-current assets

- **Goodwill:** decreased 166 million euros, from 36,957 million euros at the end of 2011 to 36,791 million euros at September 30, 2012 due to the exchange rate effect of the Brazilian and Argentine companies.

- **Other intangible assets:** decreased 522 million euros, from 8,600 million euros at the end of 2011 to 8,078 million euros at September 30, 2012, being the balance of the following:
  - additions (+1,304 million euros);
  - amortization charge for the period (-1,606 million euros);
  - capitalization of borrowing costs relating to the acquisition of the user rights for the LTE mobile telephony frequencies (+38 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 -258 million euros).

- **Tangible assets:** decreased 680 million euros, from 15,948 million euros at the end of 2011 to 15,268 million euros at September 30, 2012, being the balance of the following:
  - additions (+2,076 million euros);
  - depreciation charge for the period (-2,361 million euros);
  - disposals, exchange differences, reclassifications and other movements (for a net balance of -395 million euros).

Discontinued operations/Non-current assets held for sale

As a result of the decision to sell Matrix S.p.A., the company was classified as a disposal group pursuant to IFRS 5 (Non-current assets held for sale and discontinued operations). As a result, the company's assets and liabilities were reclassified under the two specific items of the Consolidated statements of financial position at September 30, 2012 “Discontinued operations/Non-current assets held for sale” (63 million euros) and “Liabilities directly associated with discontinued operations/non-current assets held for sale” (31 million euros). Specifically, these items comprise:

- Non-current assets held for sale of a non-financial nature for 62 million euros;
- Non-current assets held for sale of a financial nature for 1 million euros;
- Liabilities directly associated with non-current assets held for sale of a non-financial nature for 31 million euros.

Consolidated equity

Consolidated equity is 27,150 million euros (26,695 million euros at December 31, 2011), of which 23,336 million euros is attributable to owners of the Parent (22,791 million euros at December 31, 2011) and 3,814 million euros is 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)	09/30/2012	12/31/2011
At the beginning of the period	**26,695**	**32,555**
Total comprehensive profit (loss) for the period	1,444	(4,605)
Dividends approved by:	(994)	(1,302)
Telecom Italia S.p.A.	*(895)*	*(1,184)*
Other Group companies	*(99)*	*(118)*
Issue of equity instruments	1	7
Effect of increase in economic interest in Argentina BU	-	(210)
Effect of capital transactions by companies in Brazil BU	-	240
Other changes	4	10
At the end of the period	**27,150**	**26,695**

Cash flows

The main transactions which had an impact on the change in adjusted net financial debt during the first nine months of 2012 are the following:

Change in adjusted net financial debt

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Change
EBITDA	8,860	9,137	(277)
Capital expenditures on an accrual basis	(3,380)	(3,190)	(190)
Change in net operating working capital:	(1,332)	(1,318)	(14)
Change in inventories	*(94)*	*(124)*	*30*
Change in trade receivables and net amounts due from customers on construction contracts	*674*	*131*	*543*
Change in trade payables (*)	*(1,460)*	*(1,032)*	*(428)*
Other changes in operating receivables/payables	*(452)*	*(293)*	*(159)*
Change in provisions for employee benefits	(14)	(57)	43
Change in operating provisions and Other changes	7	(48)	55
Net operating free cash flow	**4,141**	**4,524**	**(383)**
EBITDA margin	*18.8*	*20.5*	*(1.7) pp*
Sale of investments and other disposals flow	41	463	(422)
Financial investments flow	(9)	(183)	174
Dividend payment	(1,027)	(1,326)	299
Finance expenses, income taxes and other net non-operating requirements flow	(2,217)	(1,958)	(259)
Reduction/(Increase) in adjusted net financial debt	**929**	**1,520**	**(591)**

(*) 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 the first nine months of 2012 has been particularly impacted by the following:

Capital expenditures on an accrual basis

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

(millions of euros)	9 months to 09/30/2012	% of total	9 months to 09/30/2011	% of total	Change
Domestic	1,982	58.6	2,004	62.8	(22)
Brazil	966	28.6	807	25.3	159
Argentina	383	11.3	331	10.4	52
Media, Olivetti and Other Operations	49	1.5	48	1.5	1
Adjustments and Eliminations	–	–	–	–	–
Total consolidated	**3,380**	**100.0**	**3,190**	**100.0**	**190**
EBITDA margin	*15.3*		*14.5*		*0.8 pp*

Capital expenditures in the first nine months of 2012 total 3,380 million euros, an increase of 190 million euros (+6.0%) compared to the first nine months of 2011. In particular:

- the **Domestic Business Unit** records a reduction of 22 million euros particularly because of less need to accept deliveries for new plant due to a slowdown and contraction of the commercial dynamics of the Fixed-line access business;
- the **Brazil Business Unit** posts an increase of 159 million euros (including a negative exchange effect of 53 million euros) mainly for expenditures dedicated to the expansion of the network infrastructure;
- the **Argentina Business Unit** increased capital expenditures by 52 million euros. Besides the increase in subscriber acquisition costs, investments were aimed at extending and upgrading broadband services in order to improve transmission capacity and increase access speeds offered to customers, at traditional fixed-line access to meet demand and at backhauling to support the development of mobile access. Moreover, Telecom Personal invested mainly to increase capacity and extend the 3G network to sustain internet mobile growth.

Change in net operating working capital

The change during the period, from 1,318 million euros in the first nine months of 2011 to 1,332 million euros in the first nine months of 2012 generated an increase in overall requirements of 14 million euros.
In the first nine months of 2012, certain 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 for 350 million euros, trade payables for 432 million euros and a net reduction in other net operating receivables/payables for 55 million euros.

Sale of investments and other disposals flow

Sale of investments and other disposals flow totals 41 million euros in the first nine months of 2012 and principally refers to the collection of the instalments on the sale of the investment in EtecSA Cuba which took place at the end of January 2011.
In the first nine months of 2011, these amounted to 463 million euros and referred to:

- 398 million euros for the portion already received, net of related incidental expenses, on the sale of EtecSA (Cuba);
- 53 million euros received, net of related incidental expenses and the net financial debt of the subsidiary, on the sale of the entire stake held in Loquendo on September 30, 2011.

Financial investments flow

Financial investments flow refers mainly to the payment of incidental costs and other payables in connection with the acquisition of investments during the last part of the previous year. In the first nine months of 2011, financial investments flow amounted to 183 million euros, mainly attributable to the increase in the percentage holding in the Sofora Group - Telecom Argentina, in addition to the acquisition of control of the 4G Holding Group.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly include the payment, during the first nine months of 2012, of net finance expenses (1,444 million euros) and income taxes (800 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)	09/30/2012 (a)	12/31/2011 (b)	Change (a - b)
Non-current financial liabilities			
Bonds	24,804	24,478	326
Amounts due to banks, other financial payables and liabilities	8,746	10,078	(1,332)
Finance lease liabilities	1,202	1,304	(102)
	34,752	**35,860**	**(1,108)**
Current financial liabilities (*)			
Bonds	3,088	3,895	(807)
Amounts due to banks, other financial payables and liabilities	2,854	1,951	903
Finance lease liabilities	224	245	(21)
	6,166	**6,091**	**75**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	–	–	–
Total Gross financial debt	**40,918**	**41,951**	**(1,033)**
Non-current financial assets			
Securities other than investments	(14)	(12)	(2)
Financial receivables and other non-current financial assets	(2,990)	(2,937)	(53)
	(3,004)	**(2,949)**	**(55)**
Current financial assets			
Securities other than investments	(643)	(1,007)	364
Financial receivables and other current financial assets	(545)	(462)	(83)
Cash and cash equivalents	(6,754)	(6,714)	(40)
	(7,942)	**(8,183)**	**241**
Financial assets relating to Discontinued operations/Non-current assets held for sale	(1)	–	(1)
Total financial assets	**(10,947)**	**(11,132)**	**185**
Accounting net financial debt	**29,971**	**30,819**	**(848)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(486)*	*(405)*	*(81)*
Adjusted net financial debt	**29,485**	**30,414**	**(929)**
Detailed as follows:			
Total adjusted gross financial debt	**38,372**	**39,382**	**(1,010)**
Total adjusted financial assets	**(8,887)**	**(8,968)**	**81**
(*) of which current portion of medium/long-term debt:			
Bonds	*3,088*	*3,895*	*(807)*
Amounts due to banks, other financial payables and liabilities	*2,112*	*1,064*	*1,048*
Finance lease liabilities	*224*	*245*	*(21)*

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.
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.

For the management of market risk the Group has adopted the "Financial risk management and control Guidelines" and mainly uses IRS and CCIRS derivatives.
The volatility of interest rates and exchange rates, featuring prominently in the 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 "Accounting net financial debt"), a new indicator was also presented denominated "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 financial settlement.

Sales of receivables to factoring companies
The sales of receivables to factoring companies finalized during the first nine months of 2012 resulted in a positive effect on net financial debt at September 30, 2012 of 930 million euros (1,334 million euros at December 31, 2011 and 800 million euros at September 30, 2011).

Gross financial debt
Bonds
Bonds at September 30, 2012 are recorded for 27,892 million euros (28,373 million euros at December 31, 2011). Their nominal repayment amount is 26,600 million euros, decreasing 375 million euros compared to December 31, 2011 (26,975 million euros).

The change in bonds during the first nine months of 2012 is as follows:

(millions of original currency)	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
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

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 1,222.5 million euros 6.250% (1)	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% (2)	Euro	790	4/24/2012

(1) Net of buybacks by the Company for 27.5 million euros during 2011.
(2) Net of buybacks by the Company for 210 million euros during 2011 and 2012.

As occurred in past years, during the first nine months of 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
Buybacks			
Telecom Italia Finance S.A. 790 million euros 7.250% maturing April 2012[1]	Euro	11.6	January 2012
Telecom Italia Finance S.A. 678 million euros 6.875% maturing January 2013[1]	Euro	80.8	January – May 2012
Telecom Italia S.p.A. 432 million euros 6.750% maturing March 2013[2]	Euro	212.9	July 2012
Telecom Italia S.p.A. 268 million euros 3-month Euribor + 0.63% maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875% maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750% maturing May 2014	Euro	116.2	July 2012

(1) Buybacks of the above bonds during 2011 amounted to 290 million euros (199 million euros on the bonds maturing April 2012 and 91 million euros on the bonds maturing January 2013). Therefore the total amount bought back was 382 million euros.
(2) As of December 2011, bonds had already been bought back for 5 million euros. Therefore 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, the nominal amount at September 30, 2012 is equal to 235 million euros and 31 million euros lower compared with December 31, 2011 (266 million euros).

Revolving Credit Facility and term loan

The following table shows the composition and the drawdown of the committed credit lines available at September 30, 2012:

(billions of euros)	09/30/2012		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	2.0	8.0	2.0
Revolving Credit Facility - expiring December 2013	0.2	-	0.2	0.2
Total	**9.45**	**2.0**	**9.45**	**2.45**

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

On September 21 and 28, 2012 the drawdowns of 200 million euros and 250 million euros on the Revolving Credit Facility, expiring in December 2013 and February 2013, respectively, were repaid.

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.
Lastly, on October 8, 2012 the drawdown of 500 million euros on the Revolving Credit Facility expiring in August 2014 was repaid. As a result, current drawdowns of 1.5 billion euros have been made on the total credit line of 8 billion euros.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the portion of medium/long-term financial liabilities due within 12 months) is 7.10 years.
The average cost of the Group's debt, considered as the cost for the period 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 table that follows:

Detail of the maturities of Financial liabilities – nominal repayment amount:

	maturing by 09/30 of the year:						
(millions of euros)	2013	2014	2015	2016	2017	After 2017	Total
Bonds	2,378	4,128	750	4,079	2,000	13,265	26,600
Loans and other financial liabilities	1,835	2,536	729	1,024	960	1,248	8,332
Finance lease liabilities	210	124	143	149	159	627	1,412
Total	**4,423**	**6,788**	**1,622**	**5,252**	**3,119**	**15,140**	**36,344**
Current financial liabilities	717	-	-	-	-	-	717
Total	**5,140**	**6,788**	**1,622**	**5,252**	**3,119**	**15,140**	**37,061**

Current financial assets and liquidity margin

The Telecom Italia Group's available liquidity margin amounts to 14.85 billion euros at September 30, 2012, and is calculated as the sum of "Cash and cash equivalents" and "current securities other than investments", totalling 7,397 million euros (7,721 million euros at December 31, 2011) and committed credit lines, mentioned above, of which a total of 7.45 billion euros has not been drawn down. This margin can cover Financial Liabilities due over the next 18-24 months.

In particular:

Cash and cash equivalents come to 6,754 million euros (6,714 million euros at December 31, 2011). The different technical forms of investing available cash at September 30, 2012, which include Euro Commercial Papers for 40 million euros, can be analysed 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 643 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. These consist of 460 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in “Sovereign debt securities” and have been made in accordance with the “Financial risk management and control" Guidelines adopted by the Telecom Italia Group in July 2012) and also 183 million euros of bonds with different maturities, but all with an active market, that is, readily convertible into cash.

In the **third quarter of 2012 adjusted net financial debt** decreased 875 million euros compared to the end of June 2012: cash flows generated from operating activities fully absorbed the requirements deriving from the payment of income tax expense of approximately 560 million euros.

(millions of euros)	09/30/2012 (a)	06/30/2012 (b)	Changes (a-b)
Accounting net financial debt	**29,971**	**30,785**	(814)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(486)*	*(425)*	*(61)*
Adjusted net financial debt	**29,485**	**30,360**	(875)
Detailed as follows:			
Total adjusted gross financial debt	**38,372**	**38,429**	(57)
Total adjusted financial assets	**(8,887)**	**(8,069)**	(818)

Covenants, negative pledges and other conditions of contract existing at September 30, 2012

The bonds issued by the Telecom Italia Group do not contain financial covenants (e.g. ratios such a Debt/EBITDA, EBITDA/Interest, etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees, nor are there commitments provided for the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

None of the bonds issued by the Telecom Italia Group carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which govern the bonds are in line with market practice for similar transactions effected on these same markets. Consequently, for example, there are commitments not to use the company's assets as collateral for loans ("negative pledges").

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,155 million euros (out of a total of 2,968 million euros at September 30, 2012) is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments (with the exception of certain acts of disposal expressly envisaged), it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan agreement;
- "Clause for Inclusion" envisaged on the loan secured on August 5, 2011 for 100 million euros: where there are more restrictive clauses (e.g. cross default clauses, financial covenants, commitments restricting the sale of goods) conceded by the Company in new loan contracts, the EIB shall have the right to ask for guarantees to be set up or changes to be made to the loan contract in order to obtain the equivalent clause in favor of the EIB. The clause in question does not apply to subsidized loans as long as the total remaining amount of principal is less than 500 million euros;
- for all loans not secured by collateral, if the Company's rating of unsubordinated and unsecured medium/long-term debt is lower than BBB for Standard & Poor's, Baa2 for Moody's and BBB for Fitch Ratings, the company shall immediately inform the EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia S.p.A. fails to provide the guarantees, the EIB shall have the right to demand immediate repayment of the amount disbursed. The current ratings (BBB and Baa2) did not require new guarantees or repayments of loans.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread added to the Euribor ranging between a

minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.
The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company's assets as collateral for loans (negative pledges), and the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in the export credit loan agreements.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control. Such obligation, required by national legislation in matters governing qualifying rights, is firstly contained in the general authorization rights granted to Telecom Italia for the operation and the provision of the electronic communication network and for the offer of electronic communication services, besides the concession/general authorization rights granted to the subsidiary Telecom Italia Media for the network operator and content supplier activities. A similar obligation is governed on the basis of the local legislation and content in the concession/license rights of the telecommunications services in favor of the foreign subsidiaries of the Group. Telecom Italia is also a party to agreements in which the phenomenon of a change in control involves a change in or the termination of the relationship. Some, however, not regarding financing relationships, are subject to restrictions on confidentiality, such that the disclosure of the presence of the clause would cause severe detriment to the Company, which consequently takes advantage of the right not to proceed to make any disclosure on the issue, pursuant to art. 123-bis of the TUF, paragraph 1, letter h), second part. In other cases, the significance of the agreement is excluded.
There remain the following types of agreements, all regarding financing relationships:

- *Multi-currency revolving credit facility* (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and Telecom Italia shall be held to repay any sum disbursed (currently equal to 2,000,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to article 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders' meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders' agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;
- *Revolving credit facility* (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and envisages a discipline similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders' agreement. Therefore, no change of control is held to exist in the event control, pursuant to article 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining unchanged. Draw downs of 250 million euros from the line were repaid on September 28, 2012 (this line is currently unused);
- *Revolving credit facility* (200,000,000 euros). The agreement was signed between Telecom Italia and UniCredit S.p.A. on December 20, 2010 and envisages terms and conditions basically identical to those of the February 12, 2010 credit facility. Draw downs of million euros from the line were repaid on September 21, 2012 (this line is currently unused);
- *Bonds*. The regulations covering the bonds issued under the Telecom Italia EMTN Programme by both Olivetti and Telecom Italia and the bonds denominated in U.S. dollars typically provide that, in the event of mergers or transfer of "all or substantially all of the assets" of the issuing company or the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfilment of the obligation, for which a solution is not found, is an event of default;

- *Loan agreements with the European Investment Bank (EIB)* for a total nominal amount of 2.95 billion euros. The agreements signed by Telecom Italia with the EIB, for an amount of approximately 2.65 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change of control. Failure to disclose this information to the bank shall result in the termination of the agreement. In addition, if a shareholder holding less than 2% of the share capital at the date of signing the agreement comes to hold more than 50% of the voting rights at the ordinary shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital, and the bank reasonably believes that such a development could jeopardize or compromise the execution of the loan project, the bank may demand guarantees from Telecom Italia or amendments to the agreement or an alternative solution. In the event that Telecom Italia does not comply with the demands of the EIB, the bank shall be entitled to terminate the agreement. More specifically:
  - in the agreement entered into by Telecom Italia and the EIB on August 5, 2011 and in the three agreements, secured respectively by bank guarantees and a guarantee issued by Sace S.p.A., entered into on September 26, 2011, for a sum total of 200 million euros, a change of control is defined as the acquisition of control of Telecom Italia or of the entity that directly or indirectly controls Telecom Italia by a single entity or group of entities acting in concert. A change of control does not, however, occur when control is acquired directly or indirectly by (i) any Telecom Italia shareholder holding at least 13% of voting rights at the ordinary shareholders' meeting, either directly or indirectly, at the date of the agreement, or (ii) by investors of Telefonica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. or their subsidiaries;
  - in addition, the three secured loan agreements entered into on September 26, 2011 contemplate an "inclusion clause" whereby in the event that Telecom Italia commits to upholding financial parameters in any new loan agreements that are not contemplated or are more stringent than those contemplated by the EIB agreements, the EIB may demand that new guarantees be provided or that amendments be made to the loan agreement to assure the EIB equivalent guarantees. The clause in question does not apply to facilitated loans as long as the total remaining amount of principal is less than 500 million euros;
- *Export Credit Agreement* (residual nominal amount of approximately 25 million euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change of control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due;
- *Senior Secured Syndicated Facility* (residual nominal amount of 312,464,000 Argentine pesos, approximately equal to 52 million euros). The agreement was entered into in October 2011 by BBVA Banco Francés and Tierra Argentea S.A. (a wholly-owned subsidiary of the Telecom Italia Group) and provides for the full repayment of the loan in 2016. The loan is guaranteed (a) by two pledges of (i) 15,533,834 Telecom Argentina shares and (ii) 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares as well as (b) by an on demand bank guarantee for a total amount of approximately USD 22.8 million (equal to about 18.1 million euros). The agreement includes negative covenants and financial covenants, which are in line with those of other syndicated facilities and local market practice, and a change of control clause entailing the full early repayment of the loan in the event that the Telecom Italia Group reduces its holding in Tierra Argentea S.A. to below 100% or loses control of other Argentine subsidiaries.

Furthermore, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, under pain of a request for the early repayment of the loan.
Lastly, as of September 30, 2012, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

Interim Consolidated Financial Statements

The Interim Report at September 30, 2012 of the Telecom Italia Group has been prepared as set out in 154-ter (Financial Reports) of Legislative Decree 58/1998 (Consolidated Law on Finance - TUF), and subsequent amendments and additions, as well as Consob Communication DEM/8041082 of April 30, 2008 (Quarterly Corporate Reports issued by Companies whose Shares are Listed in Italy as the Original Member State).
The Interim Report is unaudited and has been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS").
The accounting principles and consolidation principles adopted in the preparation of this Report are the same as those adopted in the Telecom Italia Group Annual Consolidated Financial Statements at December 31, 2011, to which reference can be made, except for:

- *the early adoption of the revised version of IAS 19 (Employee Benefits), applied retrospectively. Consequently, the data for the corresponding 2011's periods being compared have been restated ("Restated"), as illustrated below;*
- *the new standards and interpretations adopted by the Group that did not have any effect on the Interim Report at September 30, 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, accounting net financial debt 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 2012" 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 present Interim 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.

Effects of the adoption of the revised version of IAS 19 (Employee Benefits) on the key financial and operating data of the Telecom Italia Group

In June 2012, the EU issued Commission Regulation (EU) 475-2012 that endorsed the revised version of IAS 19 (Employee Benefits) which is applicable retrospectively, starting from January 1, 2013. As permitted, Telecom Italia decided to early adopt the amendments to IAS 19 starting from the half-year condensed consolidated financial statements 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, with reference to the employee defined benefit plans (e.g. employee severance indemnities), remeasurements of actuarial gains and losses are recognized in other components of other comprehensive income. Therefore, other options previously provided were eliminated (including the one adopted by the Telecom Italia Group whereby these components had been recorded in Employee benefits expenses in the separate consolidated income statements). 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 statements.
The early adoption of such amendments resulted in the restatement of the separate consolidated income statements and the consolidated statements of comprehensive income for the 3rd Quarter 2011 and the first nine months of 2011.

The effects are as follows:

Separate Consolidated Income Statements

(millions of euros)	3rd Quarter 2011	9 months to 09/30/2011
Employee benefits expenses – reversal of actuarial gain	(26)	(68)
Employee benefits expenses – interest component reclassification	9	30
Finance expenses - interest component reclassification	(9)	(30)
Income tax expense	6	18
Impact on Profit (loss) for the period	**(20)**	**(50)**

The adoption of such amendments did not have any effect on basic and diluted earnings per share in the first nine months of 2011.

Consolidated Statements of Comprehensive Income

(millions of euros)	3rd Quarter 2011	9 months to 09/30/2011
Impact on Profit (loss) for the period	**(20)**	**(50)**
Remeasurements of employee defined benefit plans (IAS 19)	**20**	**50**
Actuarial gains	26	68
Net fiscal impact	(6)	(18)
Impact on Comprehensive Profit (loss) for the period	**-**	**-**

Consolidated Statements of Cash Flows

The early adoption of the amendments to IAS 19 did not have an impact on the “Aggregate cash flows” of the consolidated statements of cash flows in the first nine months of 2011 and, in particular, on the “Cash flows from (used in) operating activities”.

Principal changes in the scope of consolidation

During 2012, the following changes occurred:

- *Matrix - Other Operations: At September 30, 2012, as a result of the decision to sell this company, it was classified as a disposal group pursuant to IFRS 5 (Non-current assets held for sale and discontinued operations). As a result, the company's assets and liabilities were reclassified under the two specific items of the Consolidated statements of financial position at September 30, 2012 “Discontinued operations/Non-current assets held for sale” and “Liabilities directly associated with discontinued operations/non-current assets held for sale”; the sale took place on October 31, 2012.*

During 2011, the following changes had occurred:

- *Tim Fiber – Brazil: on October 31, 2011, ownership interests were acquired for a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A., both telecommunications infrastructure operators in the states of San Paolo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. The original ownership interest in Tim Fiber RJ was subsequently increased to*

99.1% and the remaining 0.9% was the object of a tender offer which was concluded at the end of February 2012 and brought the percentage interest to 99.7%. The acquisitions were carried out through the subsidiary Tim Celular S.A., into which the two companies were recently merged.

- *4GH group - Domestic: on July 27, 2011, the 4G Holding group entered the scope of consolidation (retail sale of telephony products) following the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l.*
- *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)	3rd Quarter 2012	3rd Quarter 2011 (Restated)	9 months to 09/30/2012 (a)	9 months to 09/30/2011 (Restated) (b)	Change (a-b) amount	Change (a-b) %
Revenues	**7,268**	**7,516**	**22,061**	**22,059**	**2**	**0.0**
Sundry income	61	59	169	167	2	°
Total operating revenues and other income	**7,329**	**7,575**	**22,230**	**22,226**	**4**	**0.0**
Acquisition of goods and services	(3,176)	(3,210)	(9,676)	(9,442)	(234)	(2.5)
Employee benefits expenses	(895)	(936)	(2,901)	(2,922)	21	0.7
Other operating expenses	(442)	(428)	(1,339)	(1,271)	(68)	(5.4)
Change in inventories	50	54	112	135	(23)	(17.0)
Internally generated assets	135	126	434	411	23	5.6
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**3,001**	**3,181**	**8,860**	**9,137**	**(277)**	**(3.0)**
Depreciation and amortization	(1,297)	(1,335)	(3,967)	(4,169)	202	4.8
Gains (losses) on disposals of non-current assets	(6)	26	10	23	(13)	°
Impairment reversals (losses) on non-current assets	(3)	–	(3)	(3,182)	3,179	°
Operating profit (loss) (EBIT)	**1,695**	**1,872**	**4,900**	**1,809**	**3,091**	**n.s.**
Share of losses (profits) of associates and joint ventures accounted for using the equity method	–	(7)	(4)	(19)	15	78.9
Other income (expenses) from investments	(2)	–	(2)	15	(17)	°
Finance income	203	(41)	1,475	1,644	(169)	(10.3)
Finance expenses	(686)	(474)	(2,875)	(3,140)	265	8.4
Profit (loss) before tax from continuing operations	**1,210**	**1,350**	**3,494**	**309**	**3,185**	**n.s.**
Income tax expense	(425)	(450)	(1,249)	(1,219)	(30)	(2.5)
Profit (loss) from continuing operations	**785**	**900**	**2,245**	**(910)**	**3,155**	**n.s.**
Profit (loss) from Discontinued operations/Non-current assets held for sale	–	–	–	(11)	11	°
Profit (loss) for the period	**785**	**900**	**2,245**	**(921)**	**3,166**	**n.s.**
Attributable to:						
Owners of the Parent	**681**	**786**	**1,926**	**(1,256)**	**3,182**	**n.s**
Non-controlling interests	104	114	319	335	(16)	(4.8)

(euro) **Basic and Diluted Earnings per Share (EPS) (*):**	9 months to 09/30/2012	9 months to 09/30/2011 (Restated)
Ordinary shares	0.10	(0.07)
Savings shares	0.11	(0.07)
of which:		
from continuing operations		
ordinary shares	*0.10*	*(0.07)*
savings shares	*0.11*	*(0.07)*
from discontinued operations/non-current assets held for sale		
ordinary shares	–	–
savings shares	–	–

(*)Basic EPS is equal to Diluted EPS

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 period as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		3rd Quarter 2012	3rd Quarter 2011 (Restated)	9 months to 09/30/2012	9 months to 09/30/2011 (Restated)
Profit (loss) for the period	**(a)**	**785**	**900**	**2,245**	**(921)**
Other components of the Statements of Comprehensive Income:					
Available-for-sale assets:					
Profit (loss) from fair value adjustments		15	4	46	9
Loss (profit) transferred to the Separate Consolidated Income Statement		–	–	1	1
Net fiscal impact		(3)	(3)	(10)	(4)
	(b)	**12**	**1**	**37**	**6**
Hedging instruments:					
Profit (loss) from fair value adjustments		36	608	(40)	262
Loss (profit) transferred to the Separate Consolidated Income Statement		(138)	(484)	(99)	150
Net fiscal impact		30	(35)	40	(115)
	(c)	**(72)**	**89**	**(99)**	**297**
Exchange differences on translating foreign operations:					
Profit (loss) on translating foreign operations		(405)	(495)	(742)	(851)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		–	–	–	75
Net fiscal impact		–	–	–	–
	(d)	**(405)**	**(495)**	**(742)**	**(776)**
Remeasurements of employee defined benefit plans (IAS 19):					
Actuarial gains (losses)		–	26	4	68
Net fiscal impact		–	(6)	(1)	(18)
	(e)	**–**	**20**	**3**	**50**
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:					
Profit (loss)		–	(1)	–	–
Loss (profit) transferred to the Separate Consolidated Income Statement		–	–	–	–
Net fiscal impact		–	–	–	–
	(f)	**–**	**(1)**	**–**	**–**
Total	**(g=b+c+d+e+f)**	**(465)**	**(386)**	**(801)**	**(423)**
Total comprehensive income (loss) for the period	**(a+g)**	**320**	**514**	**1,444**	**(1,344)**
Attributable to:					
Owners of the Parent		**419**	**478**	**1,440**	**(1,372)**
Non-controlling interests		(99)	36	4	28

Consolidated Statements of Financial Position

(millions of euros)		09/30/2012 (a)	12/31/2011 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		36,791	36,957	(166)
Other intangible assets		8,078	8,600	(522)
		44,869	**45,557**	**(688)**
Tangible assets				
Property, plant and equipment owned		14,229	14,854	(625)
Assets held under finance leases		1,039	1,094	(55)
		15,268	**15,948**	**(680)**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		67	47	20
Other investments		37	38	(1)
Non-current financial assets		3,004	2,949	55
Miscellaneous receivables and other non-current assets		1,252	1,128	124
Deferred tax assets		1,082	1,637	(555)
		5,442	**5,799**	**(357)**
Total Non-current assets	**(a)**	**65,579**	**67,304**	**(1,725)**
Current assets				
Inventories		542	447	95
Trade and miscellaneous receivables and other current assets		7,206	7,770	(564)
Current income tax receivables		23	155	(132)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,188*	*1,469*	*(281)*
Cash and cash equivalents		*6,754*	*6,714*	*40*
		7,942	8,183	(241)
Current assets sub-total		**15,713**	**16,555**	**(842)**
Discontinued operations/Non-current assets held for sale				
of a financial nature		1	–	1
of a non-financial nature		62	–	62
		63	**–**	**63**
Total Current assets	**(b)**	**15,776**	**16,555**	**(779)**
Total Assets	**(a+b)**	**81,355**	**83,859**	**(2,504)**

(millions of euros)		09/30/2012 (a)	12/31/2011 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		23,336	22,791	545
Equity attributable to non-controlling interests		3,814	3,904	(90)
Total Equity	**(c)**	**27,150**	**26,695**	**455**
Non-current liabilities				
Non-current financial liabilities		34,752	35,860	(1,108)
Employee benefits		874	850	24
Deferred tax liabilities		973	1,056	(83)
Provisions		865	831	34
Miscellaneous payables and other non-current liabilities		1,113	1,156	(43)
Total Non-current liabilities	**(d)**	**38,577**	**39,753**	**(1,176)**
Current liabilities				
Current financial liabilities		6,166	6,091	75
Trade and miscellaneous payables and other current liabilities		9,322	10,984	(1,662)
Current income tax payables		109	336	(227)
Current liabilities sub-total		**15,597**	**17,411**	**(1,814)**
Liabilities directly associated with discontinued operations/Non-current assets held for sale				
of a financial nature		–	–	–
of a non-financial nature		31	–	31
		31	**–**	**31**
Total Current Liabilities	**(e)**	**15,628**	**17,411**	**(1,783)**
Total Liabilities	**(f=d+e)**	**54,205**	**57,164**	**(2,959)**
Total Equity and liabilities	**(c+f)**	**81,355**	**83,859**	**(2,504)**

Consolidated Statements of Cash Flows

(millions of euros)		9 months to 09/30/2012	9 months to 09/30/2011 (Restated)
Cash flows from operating activities:			
Profit (loss) from continuing operations		2,245	(910)
Adjustments for:			
Depreciation and amortization		3,967	4,169
Impairment losses (reversals) on non-current assets (including investments)		4	3,196
Net change in deferred tax assets and liabilities		498	565
Losses (gains) realized on disposals of non-current assets (including investments)		(8)	(37)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		4	19
Change in provisions for employee benefits		(14)	(57)
Change in inventories		(94)	(124)
Change in trade receivables and net amounts due from customers on construction contracts		674	131
Change in trade payables		(833)	(496)
Net change in current income tax receivables/payables		(94)	(30)
Net change in miscellaneous receivables/payables and other assets/liabilities		(306)	(136)
Cash flows from (used in) operating activities	**(a)**	**6,043**	**6,290**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(1,304)*	*(1,309)*
Purchase of tangible assets on an accrual basis		*(2,076)*	*(1,881)*
Total purchase of intangible and tangible assets on an accrual basis		(3,380)	(3,190)
Change in amounts due to fixed asset suppliers		*(627)*	*(536)*
Total purchase of intangible and tangible assets on a cash basis		(4,007)	(3,726)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(7)	(20)
Acquisitions/disposals of other investments		(2)	(1)
Change in financial receivables and other financial assets		197	(471)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		(7)	51
Proceeds from sale/repayment of intangible, tangible and other non-current assets		48	412
Cash flows from (used in) investing activities	**(b)**	**(3,778)**	**(3,755)**
Cash flows from financing activities:			
Change in current financial liabilities and other		(290)	448
Proceeds from non-current financial liabilities (including current portion)		3,086	2,445
Repayments of non-current financial liabilities (including current portion)		(3,931)	(4,986)
Share capital proceeds/reimbursements (including subsidiaries)		(2)	–
Dividends paid		(1,027)	(1,326)
Changes in ownership interests in consolidated subsidiaries		–	(155)
Cash flows from (used in) financing activities	**(c)**	**(2,164)**	**(3,574)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**–**	**–**
Aggregate cash flows	**(e=a+b+c+d)**	**101**	**(1,039)**
Net cash and cash equivalents at beginning of the period	**(f)**	**6,670**	**5,282**
Net foreign exchange differences on net cash and cash equivalents	**(g)**	(108)	(132)
Net cash and cash equivalents at end of the period	**(h=e+f+g)**	**6,663**	**4,111**

Additional Cash Flow Information

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011 (Restated)
Income taxes (paid)/received	(800)	(701)
Interest expense paid	(2,726)	(2,273)
Interest income received	1,282	845
Dividends received	1	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011 (Restated)
Net cash and cash equivalents at beginning of the period		
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 end of the period		
Cash and cash equivalents - from continuing operations	6,754	4,142
Bank overdrafts repayable on demand – from continuing operations	(92)	(31)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	1	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	6,663	**4,111**

Changes in equity from January 1, to September 30, 2011

(millions of euros)	Equity attributable to owners of the Parent										
	Share capital	Paid-in capital	Reserve for available- for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19) (*)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total**	**Equity attributable to Non-controlling interests**	**Total Equity**
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 period:											
Dividends approved								(1,184)	**(1,184)**	(73)	**(1,257)**
Total comprehensive income (loss) for the period	–	–	6	297	(469)	50	–	(1,256)	**(1,372)**	28	**(1,344)**
Bonus increase in share capital to service the "Broad-based Employee Share Ownership Plan"	4							(4)	**–**		**–**
Grant of equity instruments								3	**3**		**3**
Effect of capital transactions by companies in Brazil BU								31	**31**	(31)	**–**
Effect of increase in economic interest in Argentina BU								(39)	**(39)**	(114)	**(153)**
Other changes								10	**10**	4	**14**
Balance at September 30, 2011	**10,604**	**1,697**	**(1)**	**13**	**932**	**162**	**(1)**	**12,862**	**26,268**	**3,550**	**29,818**

(*) The Reserve is presented as a result of the early adoption, starting from the first half of 2012, 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, including profit (loss) for the period".

Changes in equity from January 1 to September 30, 2012

(millions of euros)	Equity attributable to owners of the Parent										
	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19) (*)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the period	**Total**	**Equity attributable to Non-controlling interests**	**Total Equity**
Balance at December 31, 2011	**10,604**	**1,704**	**(4)**	**(74)**	**1,089**	**196**	**(1)**	**9,277**	**22,791**	**3,904**	**26,695**
Changes in Equity during the period:											
Dividends approved								(895)	**(895)**	(99)	**(994)**
Total comprehensive income (loss) for the period	–	–	37	(99)	(427)	3		1,926	**1,440**	4	**1,444**
Grant of equity instruments								1	**1**		**1**
Other changes								(1)	**(1)**	5	**4**
Balance at September 30, 2012	**10,604**	**1,704**	**33**	**(173)**	**662**	**199**	**(1)**	**10,308**	**23,336**	**3,814**	**27,150**

(*) The Reserve is presented as a result of the early adoption, starting from the first half of 2012, 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, including profit (loss) for the period".

Analysis of the main consolidated financial and operating items

Acquisition of goods and services

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Changes
Acquisition of goods	1,921	1,806	115
Portion of revenues to be paid to other operators and interconnection costs	3,090	3,145	(55)
Commercial and advertising costs	1,587	1,660	(73)
Energy, maintenance and outsourced services	1,389	1,204	185
Rent and leases	497	481	16
Other service expenses	1,192	1,146	46
Total Acquisition of goods and services	**9,676**	**9,442**	**234**
% of Revenues	*43.9*	*42.8*	*1.1 pp*

Employee benefits expenses

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Changes
Employee benefits expenses - Italy	2,196	2,312	(116)
Employee benefits expenses – Outside Italy	705	610	95
Total Employee benefits expenses	**2,901**	**2,922**	**21**
% of Revenues	*13.1*	*13.2*	*(0.1) pp*

Average headcount of the salaried workforce

(equivalent number)	9 months to 09/30/2012	9 months to 09/30/2011	Changes
Average salaried headcount – Italy	52,221	53,569	(1,348)
Average salaried headcount – Outside Italy	26,050	24,624	1,426
Total Average salaried headcount (1)	**78,271**	**78,193**	**78**

(1) Includes headcount with temp work contracts: 59 in the first nine months of 2012 (57 in Italy and 2 outside Italy). In the first nine months of 2011, the average headcount was 94 (79 in Italy and 15 outside Italy).

Headcount at period-end

(number)	09/30/2012	12/31/2011	Changes
Headcount – Italy	56,742	56,878	(136)
Headcount – Outside Italy	28,441	27,276	1,165
Total (1)	**85,183**	**84,154**	**1,029**

(1) Includes headcount with temp work contracts: 87 at September 30, 2012 and 42 at December 31, 2011.

Headcount at period-end – Breakdown by Business Unit

(number)	09/30/2012	12/31/2011	Changes
Domestic	55,200	55,047	153
Brazil	11,309	10,539	770
Argentina	16,774	16,350	424
Media	805	765	40
Olivetti	803	1,075	(272)
Other Operations	292	378	(86)
Total	**85,183**	**84,154**	**1,029**

Other income

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Changes
Late payment fees charged for telephone services	54	55	(1)
Recovery of employee benefits expenses, purchases and services rendered	30	26	4
Capital and operating grants	13	19	(6)
Damage compensation, penalties and sundry recoveries	29	20	9
Sundry income	43	47	(4)
Total	**169**	**167**	**2**

Other operating expenses

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011	Changes
Writedowns and expenses in connection with credit management	393	358	35
Provision charges	107	120	(13)
Telecommunications operating fees and charges	480	467	13
Indirect duties and taxes	288	247	41
Penalties, settlement compensation and administrative fines	17	32	(15)
Association dues and fees, donations, scholarships and traineeships	20	17	3
Sundry expenses	34	30	4
Total	**1,339**	**1,271**	**68**

Reconciliation between reported data and organic data

EBITDA – reconciliation of organic data

(millions of euros)	TELECOM ITALIA GROUP 9 months to 09/30/2012	9 months to 09/30/2011
HISTORICAL EBITDA	**8,860**	**9,137**
Changes in the scope of consolidation		(1)
Foreign currency financial statements translation effect		(84)
Non-organic (income) expenses	64	59
Disputes and settlements	*10*	*15*
Restructuring expenses	*30*	*2*
Other (income) expenses, net	*24*	*42*
COMPARABLE EBITDA	**8,924**	**9,111**

	Domestic (millions of euros)		Olivetti (millions of euros)		Media (millions of euros)		Brazil (millions of Brazilian reais)	
	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011
HISTORICAL EBITDA	**6,696**	**6,953**	**(58)**	**(37)**	**(26)**	**27**	**3,586**	**3,313**
Changes in the scope of consolidation		(1)		–				–
Foreign currency financial statements translation effect		6		–				–
Non-organic (income) expenses	17	76	30	–	–	(21)	42	8
Disputes and settlements	*10*	*36*	–	–			–	–
Restructuring expenses	–	*2*	*30*	–			–	–
Other (income)	*7*	*38*	–	–		*(21)*	*42*	*8*
COMPARABLE EBITDA	**6,713**	**7,034**	**(28)**	**(37)**	**(26)**	**6**	**3,628**	**3,321**

EBIT – reconciliation of organic data

(millions of euros)	TELECOM ITALIA GROUP 9 months to 09/30/2012	9 months to 09/30/2011
HISTORICAL EBIT	**4,900**	**1,809**
Foreign currency financial statements translation effect		(38)
Non-organic (income) expenses already described under EBITDA	64	59
Core Domestic CGU goodwill impairment charge	–	3,182
Net gains on disposals of non-current assets	(21)	(36)
Restructuring expenses	2	-
COMPARABLE EBIT	**4,945**	**4,976**

	Domestic (millions of euros)		Olivetti (millions of euros)		Media (millions of euros)		Brazil (millions of Brazilian reais)	
	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011	9 months to 09/30/2012	9 months to 09/30/2011
HISTORICAL EBIT	**4,012**	**826**	**(64)**	**(40)**	**(72)**	**(16)**	**1,692**	**1,567**
Foreign currency		4		–				–
Non-organic (income) expenses	17	76	30	–		(21)	42	8
Core Domestic CGU goodwill		3,182	–	–	–	–	–	–
Net gains on disposals of non-	(21)	(36)	–	–			–	–
Restructuring	–	–	2	–			–	–
COMPARABLE	**4,008**	**4,052**	**(32)**	**(40)**	**(72)**	**(37)**	**1,734**	**1,575**

Events Subsequent to September 30, 2012

On October 31, 2012, Telecom Italia S.p.A. completed the sale of the company Matrix, a wholly-owned subsidiary, to Libero, controlled by Weather Investment II S.à.r.l.
The transaction will have a positive impact of 88 million euros on Group financial debt.

Business Outlook for the Year 2012

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 Business Plan 2012-2014, are the following for the full year 2012:

- Revenues and EBITDA basically unchanged compared to 2011;
- Adjusted net financial debt at about 27.5 billion euros.

Main Commercial Developments of the Business Units of the Group

Domestic

Consumer Mobile

In the third quarter 2012, the focus on the acquisition of new **Mobile Number Portability (MNP)** lines continued, with an extension of the **"Passa a TIM" promotion**, with double the refill or a two-year discount on the subscription to various types of plans. Free activation of various types of plans in the TIMX family was also continued. The focus on the **Alto Valore segment** continues, with special promotions on top-of-the-line smartphones.
Following a highly positive summer, also as a result of the **Tim Young Summer Edition** (for only 2 euros more than TIM Young, the customer has twice the number of SMS and internet access plus the Cubomusica option included), a **new communications campaign** was launched in various media (general TV, interactive, "augmented reality" billboards, initiatives to cover fashion and music targets) in September.
In September, the **"Ricarica e Vinci"** contest started up again and, following the success of its first edition, offering 500 monthly prizes including smartphones, tablets and internet keys, in addition to 1 iPhone and 1 tablet per day for refills of at least 20 euros.
In September, the positioning of **TIM Cloud** was strengthened (Italy's first mobile cloud computing service) with the broadcast of a dedicated TV commercial.
In the summer months, in order to increase market share in certain geographical areas, TIM introduced a new sales approach, with customized offerings based on local customer needs. The first Italian region involved was Apulia. In the coming months, the project will be extended to other Italian regions.
With regard to the **Ethnic** target market, TIM maintained its domination of the market with the **TIM International** option, marked by simplicity and reasonable prices (activatable for any mass market, provides customers with lower rates for all countries of origin).
Starting from June, the **new mobile broadband portfolio** was launched for internet keys, Wi-Fi modems and tablets with rate plans based on volume with no overbundling, differentiated according to the service provided. For pay-as-you-go internet users, in the July, the rate was simplified with a flat daily rate (4 euros).
The portfolio of mobile internet access plans retains its competitive edge and simplicity with the **TIMx Smartphone senza limiti** plan. In September, the flat daily rate for customers without additional options was changed (from 2 euros to 3 euros). The **TIMxSmartphone Maxi** rate plan continues to be successful for high-volume consumers.
TIM also supported the launch of the iPhone 5 with the all night event on September, 28.
At the end of August, Telecom Italia acquired the broadcasting rights from Lega Calcio both for live matches via smartphones and tablets (included in the subscription to Cubovision) and goal videos and video recaps (which can be viewed using the Serie A TIM application, available for Android and shortly also for iPhone).

Consumer Fixed-line

In the third quarter 2012 the promotional push continued of the **Internet Senza Limiti** and **Tutto Senza Limiti plans**, which were enriched by an additional convergent promotion in July, activatable exclusively at TIM stores: customers purchasing the TIM Internet Start plan (which includes iPad + mobile internet at 25 euros per month for 36 months) while also activating Internet Senza Limiti or Tutto Senza Limiti, receive a 50% discount on TIM Internet Start for the first 12 months.
Also, starting from September 1, the new **Back-to-School** promotion was introduced on activations of Internet Senza Limiti at the promotional price of 19.90 euros per month for 6 months, instead of 37.90 euros per month. The loyalty promotion which discounts the residential connection fee for new Telecom Italia customers that remain with the operator for at least 24 months was also extended.

Telecom Italia continued the **process of simplifying basic prices** introduced on July 1, 2012:

- A national fixed price for fixed-line to fixed-line calls of 1.90 eurocents per minute: a fixed price for local and national calls, with no differentiation by time frame or distance of calls;
- A fixed price for fixed-line to mobile calls of 9.90 eurocents per minute: a fixed price which is simple and easy to remember, for all calls from fixed-lines to all mobile phones. As a result the differentiation of prices among different mobile operators has been eliminated, and time frames are no longer applied.

With a view to favouring the use of the **Cubovision Pay TV service**, in July, a combined notebook PC + Cubovision Subscription offering was made available at a special price of 19.90 euros per month, with no interest due, to be paid in 36 monthly instalments. This offering can be obtained by calling 187.
The **Super Internet + Cubovision Subscription** offering continues at a special price for the first year, which guarantees the highest quality of video content viewed using a PC or TV.
The expansion of **Cubovision's content offering** continued, with the addition of new channels, including the Cartoon Network On Demand and a channel dedicated to HD and Full HD content. The promotional price for the Cubovision Subscription continues at only 4.42 euros per month for the first 6 months (instead of 9.99 euros per month). For customers who sign up for the offering together with the Cubovision decoder, the promotion will be extended to 12 months.

Business

In September an important **agreement was finalised by and between the Business Division and Italian Union of Chambers of Commerce, Industry, Trades and Agriculture (Unioncamere)** to develop digital culture among Italian small and medium-size enterprises and to expand broadband and ultra-broadband infrastructure and services throughout the country. The memorandum of understanding sets the following objectives: promoting awareness among SMEs of the advantages, in terms of productivity and business development, from increased use of advanced ICT services provided by broadband technology; encouraging investment in broadband and ultra-broadband networks, with particular focus on industrial districts and areas; identifying the most suitable methods to support and implement projects for the development and use of broadband and ultra-broadband infrastructure to support businesses, including through forms of public-private cooperation.
In the third quarter, the **offering portfolio** for medium/high-end customers was expanded. Specifically, in the **fixed segment** the **Azienda Valore profile** was launched. This is a fully-customizable plan which offers multi-access customers the chance to benefit from commercial deals, both on fixed telephony and on traffic towards other mobile operators. Similarly, on the **mobile segment** the new **Soluzione Clienti Azienda** plan was introduced, which offers substantial advantages to customers with at least 5 lines, both through leveraging of intercom traffic and in terms of bundling.
The strategy of focusing on acquisition has been pursued through the coordinated launch of numerous commercial deals for both fixed-line customers and mobile customers.
Coverage of convergent customers has been expanded through the offering of commercial solutions that increase Telecom Italia's share of wallet while also providing benefits to customers.
In the **mobile internet** area, the focus on increasing penetration continued, through the introduction of the **Promo Tablet** promotion, which offers new customers of TIM SuMisura and TIM Tuttocompreso bundle packages advantages on voice options and on the purchase of high-end tablets/smartphones.

Top Clients & Public Sector

During the third quarter, the offering in the Telecom Italia Top Client sector was enriched with **new ICT solutions**, designed to complete **the Nuvola Italiana commercial offering** for Top customers with innovative services. Specific attention has been given to **Software as a Service (SaaS)** content management and security solutions.
The main new plans in terms of content management concern both **Nuvola It People Linked**, a solution dedicated to Corporate Customers, which enables the provision of information/commercial/interactive

content and entertainment in areas and businesses equipped with WiFi coverage; and **Nuvola It Hyper Content**, which offers Content Delivery Network (CDN) services for the delivery of Audio, Video and Web content.
As regards new security services, the Nuvola Italiana offer has been expanded with the **Nuvola IT Area Protection** solution, which allows customers to make the best possible use of Telecom Italia's IP connectivity services, protecting corporate networks from potential external attacks and creating safe VPNs with other corporate offices or remote users. The **Nuvola It DDoS** solution was also introduced, which mitigates the consequences of a volumetric "Distributed Denial of Service" attack on Customer services which can be accessed via internet. The service is offered by the network, allowing it to eliminate malevolent traffic before it reaches the customer's infrastructure, while preserving the internet connection.
The mobile offering was also enriched through a precious new feature, **"TIM Company NET"**, the new Telecom Italia plan for Financial Advisors and Agents. This plan takes advantage of the potential of the Rechargeable Rate plan with All Inclusive solutions.

Brazil

In the third quarter of 2012, TIM continued its innovation process, through the initiatives illustrated below.
In the **Consumer** segment, TIM continued promoting the **Infinity and Liberty** plans, for the pre and post-paid segments, respectively, leveraging the "TIM community" concept and offering customers the opportunity to talk for an "unlimited" amount of time.
In the **post-paid segment**, TIM launched the **"Liberte seu amigo"** campaign, which provides discounts on the purchase of handsets and free surfing of the internet for six months for customers that "persuade" a friend to sign up for a TIM Liberty rate plan. These customers can also benefit from two free months of the Liberty + 50 plan.
In July, TIM signed a **sponsorship agreement** with the Vasco de Gama football team, involving the use of the TIM logo on team uniforms and the installation of a Wi-Fi network in the Vasco stadium, which will provide internet access to journalists and fans.
To strengthen its image, in the third quarter TIM launched two **institutional campaigns based on stories about its "typical" customers**, emphasizing the concepts of reducing distance, facilitating communication and quality of service.
In the area of **Wi-Fi projects**, TIM signed an agreement with Linktel, a company specializing in integrated solutions, to share wireless infrastructure. As a result of this agreement, TIM will be able to expand its Wi-Fi coverage due to the availability of over 1,500 hot spots in shopping centres, hotels, restaurants and leading national airports. The service, implemented in partnership with Linktel, will be reserved to all Infinity and Liberty Web customers, with no additional fees.
TIM also installed several access points in Paraisópolis, the second-largest neighbourhood in Sao Paolo, with over one hundred thousand inhabitants.
In the **Corporate** segment, the **TIM Flex rate plan** was repositioned; by signing up for this plan, customers' employees can make unlimited local calls to TIM mobile numbers and three other private numbers each. TIM Flex Corporate customers can also use a personalized assistance service.
As regards **TIM Fiber**, in the city of Sao Paolo the launch of the **Ultra Broadband Live TIM** offering, initially planned for September, was moved up to August. The offering provides Broadband access (35 Mbps download and 20 Mbps upload) at a monthly rate of 89.90 Brazilian reais. Additional bandwidth (50 Mbps download and 30 Mbps upload) is reserved for customers choosing the Live TIM Multi offering with a monthly charge of 129.90 Brazilian reais.
In September, TIM Fiber extended the **Broadband offering** to several areas of Rio de Janeiro, and launched a promotional offer also valid for customers in Sao Paolo, which can be activated until the October 31st; the promotion provides Live TIM at 35 Brazilian reais per month, and Live TIM Multi at 50 Brazilian reais per month.
As regards the **Product range**, TIM continues promoting the **sale of web/smartphones** without resorting to subsidy policies. For Father's Day, customers that signed up for the Liberty+ 50 rate plan (or higher) were offered the option of purchasing high-end products at discounted prices.

As regards TIM's commitment to **social** issues, it confirmed its responsibility by becoming a member of "Pastoral da Criança", an institution which focuses on improving the quality of life for young people and their families and combating infant mortality. In this area, TIM has developed an application which allows the institution's volunteers to send a text message to the Pastoral da Criança monitoring centre.
TIM is also the only mobile operator to participate in the Federal Government's "**Banda Larga 0800**" project. This initiative, implemented in the same way as a toll-free number works for phone calls, will provide free access to several internet pages via mobile phone: the connection cost will be borne by the owner of the page viewed. The agreement with the Ministry of Communications strengthens TIM's commitment to promoting digital access.

Argentina

Fixed-line telephony and broadband services

With regard to the **residential fixed line telephony segment**, Telecom Argentina continued its efforts in meeting customer access demand, seeking to contain the fall in the minutes used as a result of the shift to mobile traffic, while maintaining the growth of ARBU. At the local level, voice services featured promotions with the aim of eliminating the connection fee and a demand for services which include access to broadband. With regard to national and international long-distance services, the objective of encouraging people to acquire subscription plans remains central, improving customer ARBU partly by increasing the prices applied to value-added services.

The leadership of the "Arnet" brand benefited from an effective advertising campaign and a different offer for each segment at competitive prices driving continuous expansion of the customer base. With the **"Arnet Móvil", "Arnet Turbo", "Arnet Play"** offers and local traffic minute bundles, this completes the broadband internet service plans offered to customers. Price increases were also implemented which improve the internet ARPU.

Mobile telephony services

In the third quarter, Telecom Personal continued to offer additional benefits to its customers, in terms of credit on refills, and to provide differentiated services for members of the **Personal Club**. Additionally, to further improve the customer experience, it **upgraded the platform of its loyalty programme**, offering customized advantages for all types of members, based on their interests and needs.
In terms of providing services, Personal **expanded its digital platform** available for Android devices, to allow customers to independently manage services using their mobile phones. Also, Personal consolidated its roles as a market leader through its offering of unlimited daily internet service, which enabled widespread internet access from mobile phones.
In the third quarter, **Nucleo** stepped up its strategy, offering benefits on the purchase of voice services, data services and text messages. It also increased the frequency and variety of offerings in order to meet the needs of all types of users.

Media

On October 9, 2012 Effe2005-Feltrinelli Group and LA7 signed an agreement to create a company which will give life to a new multi-platform channel on TV, Internet and Mobile.
The company, 70%-owned by Feltrinelli Group and 30% by LA7, intends to launch an innovative channel of entertainment and information in the spring, targeted at an audience interested in dialogue, open-minded and focused on cultural growth. The management of the Company is assigned to the Managing Director and Chief Operating Officer Gianluca Paladini, with the support of the Chairman of the Editorial Committee, Gad Lerner. The channel will initially be launched on the digital terrestrial platform. Advertising sales will be assigned to the agency PRS.

Olivetti

In the third quarter 2012, the expansion of the customer base continued, with specific reference to specialized systems and software applications, including mobile apps.

Specifically, delivery began on an important **project to automate** over ten thousand bank branches for the customer IS Bank (Turkey) and the Company was awarded a contract from the Hungarian Postal Service to supply **specialized multifunction services (printing & scanning)**. In Italy, graphometric signature projects were launched in the Financial Institutions sector, for a number of service centres, including Iside and Phoenix.

An important **mobile dematerialization project** was launched for a large insurance group, involving the use of tablets to acquire customers' graphometric signatures on contracts; a similar application, for entering into energy supply contracts, is planned to be included in the Gaz de France – Suez project.

Principal Changes in the Regulatory Framework

Domestic

Fixed Wholesale markets

Wholesale Access Services

With Decision 578/10/CONS of November 11, 2010, the National Regulatory Authority (AGCom) set the new rates for wholesale access services to Telecom Italia's fixed network (unbundling, bitstream and WLR) and the calculation of the 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 or LLU*), AGCom set the following values: 8.70 euros per month from May 1, 2010, 9.02 euros per month from January 1, 2011 and, lastly, 9.28 euros per month from January 1, 2012.

For Wholesale Line Rentals (WLR) alone, offered only from Telecom Italia telephone exchanges which are not open to unbundled services (Local Loop Unbundling), the last Regulator's Council, under Decision 59/12/CIR, decided to approve the 2012 WLR Reference Offer but did not approve the economic conditions. Furthermore, under Decision 284/12/CONS, AGCom decided to submit the change to Decision 578/10/CONS, involving a decrease in the WLR monthly subscription charge for 2012, to public consultation. In particular, the Regulator submitted a WLR charge of 11.90 euros/month to public consultation (both for residential and business customers), with effect from June 1, 2012, leaving the WLR charge previously set for the entire year 2012, equal to 12.88 euros/month, in force for the first five months of the year. In October 2012, the Regulator concluded the procedure and, based on the results of the public consultation, set the WLR charge at 11.70 euros/month, confirming the effective date of the June 1st of this year. Telecom Italia appealed the abovementioned Decisions 59/12/CIR and 284/12/CONS before the Administrative Court (TAR) for Lazio, considering them unfounded in law, as they resulted in a change to the WLR charge 2012 outside of a market analysis procedure, which, pursuant to European and Italian law, is the only venue where an obligation may be revised (art. 45 of the Electronic Communications Code, pursuant to art. 16 of the "Framework" Directive).

On September 4 ,2012, with Decision 390/12/CONS, AGCom launched the 3rd cycle of analysis of the retail and wholesale fixed access markets which shall also define the new network caps for wholesale access services in copper for the three-year period 2013-2015. In this process, the Regulator referred to art. 47, paragraph 2-quater of Law no. 35 of 4/4/2012, which introduced two specific legal obligations for Telecom Italia: the unbundling of costs for maintenance accessory services for the supply of ULL lines and the purchase of these accessory services also from third party companies. The regulation is clearly in contrast with the European legal framework, according to which, the imposition of obligations on operators with significant market power (SMP) falls exclusively under the jurisdiction of AGCom. On May 7, 2012, the last AGCom Council, decided not to formally implement the law, while awaiting developments in the European infringement proceedings. On July 14, 2012, the European Commission formally launched an infringement procedure by sending a formal notice to the Italian Government, as it had recognised that art. 47, paragraph 2-quater effectively breached several regulations established in the sector Directives (2009/140/EC). In particular, the Commission pointed out possible illegitimate aspects of the regulation, in relation to the reduction of the powers and autonomy of AGCom and the imposition, by law, of "atypical" obligations outside the procedures established by European Directives.

Wholesale origination, termination and call transit

With Decision 229/11/CONS of April 28, 2011, AGCom established that, starting from January 1, 2012, the price for the TDM termination service on fixed networks of Telecom Italia and alternative operators shall be set on a symmetric basis and will be equal to Telecom Italia's charge at the level of the local telephone exchange SGU (Urban Group Stage). Through Decision 229/11/CONS AGCom also established that, beginning in 2013, Telecom Italia and other fixed line operators (OLOs) will offer only IP

interconnection with a single symmetric rate. Specifically regarding the termination service on switched networks (TDM), with Decision 92/12/CIR of September 4, 2012, AGCom approved Telecom Italia's Reference Offer for 2012, setting a price of 0.272 eurocents/minute for the termination rate at the level of the local telephone exchange SGU, thereby introducing a reduction of 10% compared to 2011. At the same time, AGCom approved the 2012 price for Telecom Italia's local SGT termination service, reducing it to 0.361 eurocents/minute (compared to 0.57 eurocents/minute in 2011). The prices for the origination service offered by Telecom Italia match those of the termination service.
With Decision 421/12/CONS of September 26, 2012, the Regulator also launched a public consultation on the price for the TDM termination service on fixed networks of alternative operators set on a symmetric basis in relation to Telecom Italia's price at SGU level and, thus, equal to 0.272 eurocents/minute.
In relation to the IP network termination service, with Decision 349/12/CONS of August 2, 2012, the Regulator submitted to public consultation the results of the application of a "pure" BU-LRIC (Bottom-Up-Long Range Incremental Cost) model, which provides a glide path – to be applied symmetrically to Telecom Italia and other alternative operators - shown below, along with the glide path for the IP local transit service offered only by Telecom Italia.

(eurocents/minute)	2012	2013	2014	2015
IP termination/origination	0.226	0.166	0.105	0.043
IP local transit	0.105	0.095	0.080	0.062

New Generation Networks
On September 23, 2010, with Decision 498/10/CONS, AGCom introduced the procedure for the regulation of access services to next generation networks. Subsequently, in January 2011 and May 2011 the Regulator submitted the new regulatory structure for access to next generation networks to public consultation. With Decision 1/12/CONS of January 18, 2012, the Regulator announced its final decision which does not explicitly require the unbundling of fiber at Telecom Italia telephone exchanges. The obligation to supply an end-to-end service in dark fiber between the Telecom Italia center and the final customer’s site was also confirmed, but with a significant attenuation of the scope compared to the proposal submitted for public consultation, introducing explicitly the principle of the “reasonableness and proportionality” of the service demands of alternative operators by reference to Telecom Italia’s NGAN (Next Generation Access Network) investment plan. With regard to the pricing of the bitstream on fiber service, AGCom confirmed the restriction of the obligation to adhere to cost to the non-competitive NGAN geographical areas only and limited to 60 days the time which must pass between publication of the Reference Offer for bitstream on fiber services approved by the Regulator and subsequent provision by Telecom Italia of retail services. In February 2012, AGCom initiated three procedures concerning the completion of the NGAN regulations: 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 published its reference offers (OR) for 2012 for its NGAN wholesale access services (local cable infrastructure, feeding sections, primary and secondary fibre optic channels, terminating fibre optic segments, end-to-end access service and FTTC and FTTH bitstream services). With Decision 95/12/CIR of October 4, 2012, AGCom initiated a second public consultation on its proposed revision of Telecom Italia's OR for FTTC and FTTH bitstream services, which will conclude on November 9, 2012. The final decision is expected to be published by the end of November. Telecom Italia may only begin the marketing of FTTCab and FTTH-type NGAN retail services 60 days after the publication of the Reference Offer of the corresponding bitstream (FTTCab and FTTH) services in the version approved by the Regulator.
Nonetheless, in compliance with Decision 61/11/CONS, which remains in force until the bitstream/VULA NGAN offer becomes available, as approved by the Regulator, on October 5, 2012, Telecom Italia submitted its new FTTC and FTTH retail access plans to AGCom for approval, as well as its

new wholesale plans for the Easy-IP fibre service – with retail minus pricing – which allows alternative operators to offer NGAN services equivalent to those of Telecom Italia. AGCom initiated the approval process (minimum duration 30 days) for the retail plans submitted by Telecom Italia, which can be marketed from December 4, 2012 (60 days following publication of the corresponding wholesale plans). Based on the provisions of Decision 61/11/CONS, Telecom Italia proposed a plan limited to a total of 40,000 customers, which can be activated only in the cities where NGAN retail plans are already offered by alternative operators or NGAN infrastructures alternative to that of Telecom Italia are present (Rome, Milan, Turin, Genoa, Bologna, Naples, Bari, Pisa, Verona, Padua and Brescia).
Lastly, on October 19, 2012, the Regulator launched a public consultation on the technical and economic conditions that Telecom Italia applies in providing its competitors with access to services received for the creation of next generation networks (access to dark fibre, civil fibre installation infrastructures – for example, pipes and mini-pipes – and to the terminal segment in fibre).

Retail fixed markets

Local, national and fixed-to-mobile retail traffic
Beginning July 1, 2012, Telecom Italia introduced further price simplifications regarding the General Offer for the Consumer clientele. Specifically, the rate manoeuvre adopted can be described as follows:

- for national traffic (local and long-distance), Telecom Italia introduced a single per minute price without changing the amount of the set-up charge;
- for fixed-mobile traffic, a single per minute price was introduced for all fixed-mobile calls regardless of either the national mobile operator called or the time frame or day of the week, without changing, again in this case, the amount of the set-up charge;
- for both types of traffic (fixed-fixed and fixed-mobile), Telecom Italia has adopted a rate with 60-second anticipated increments.

The following tables summarize the prices applied up to June 30 and those in effect from July 1, 2012 (with and without VAT).

(eurocents/minute)	Prices (VAT included)		Prices (VAT excluded)	
	To June 30	From July 1	To June 30	From July 1
Local	0.70	1.90	0.58	1.57
Long-distance	5.05		4.17	

The set-up charge is unchanged at 7.94 eurocents (VAT included).

(eurocents/minute)	Prices (VAT included)			Prices (VAT excluded)		
	To June 30		From July 1	To June 30		From July 1
Fixed-Mobile traffic	*Peak period*	*Off-peak period*		*Peak period*	*Off-peak period*	
TIM	11.50	7.83	9.90	9.50	6.47	8.18
Vodafone	11.92	7.99		9.85	6.60	
Wind	12.10	9.16		10.00	7.57	
H3G	13.55	10.93		11.20	9.03	

The set-up charge is unchanged at 7.94 eurocents (VAT included).

Wholesale mobile markets

Text message termination price
With Decision 420/12/CONS of September 13, 2012, AGCom submitted to public consultation the results of the text message termination market analysis, not included in the list of relevant markets identified by the European Commission. Currently, the economic conditions for text message termination are not regulated, and mobile network operators set prices on a commercial basis, applying the "reciprocity" (or symmetry) principle. In the draft measure submitted for consultation, AGCom concluded

that the text message termination market will not be subject to *ex-ante* regulation, as it is already competitive.

International roaming
On May 30, 2012, the European Commission approved the new "Roaming III" Regulation, which entered into force on July 1, 2012.

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

(a) the continuation of transparency duties and the cap mechanism (until 2022 for the wholesale market and until 2017 for the retail market), with a broadening of the services affected to include retail data services, according to following glide path:

	Roaming II	Roaming III		
(euro)	July 1, 2011	July 1, 2012	July 1, 2013	July 1, 2014
Wholesale Voice	0.18	0.14	0.10	0.05
Retail outgoing Voice	0.35	0.29	0.24	0.19
Retail incoming Voice	0.11	0.08	0.07	0.05
Wholesale SMS	0.04	0.03	0.02	0.02
Retail SMS	0.11	0.09	0.08	0.06
Wholesale Data	0.50 /Mb	0.25 /Mb	0.15 /Mb	0.05 /Mb
Retail Data		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, starting as of 2014, of a new "structural" measure permitting customers to purchase roaming services from a different operator to the operator from which national services are purchased; 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 cards in a certain areas in Brazil
On July 18, 2012, Anatel (the Brazilian telecommunications regulator), following the application of a new method for the measurement of quality indicators, issued an order that, among other things, required 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, from July 23, 2012. Following the rejection of the legal request made by TIM Celular for suspension of the order, on July 24, 2012 the company presented a specific detailed Action Plan to Anatel for all the States and completed the individual actions to be implemented to guarantee improvement in the quality of the services and the network.
On August 2, 2012 Anatel approved the Action Plan proposed by TIM Celular and ordered the immediate revocation of the suspension of the sales to be combined with ongoing and continuous monitoring of compliance with the Action Plan.

Auction for the user rights to mobile telephony frequencies
In June 2012, Tim Celular, a subsidiary of Tim Brasil, took part in the auction for the acquisition of the user rights to the fourth-generation (4G) mobile telephony frequency bands.
On June 12 and 13, 2012, the Brazilian regulator, Anatel, announced the results of the bidding, awarding Tim Celular the user rights to one national 10+10MHz and six regional 10+10MHz frequencies bands, as well as 7+7MHz in 450MHz 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, together with the other mobile telephony operators that were awarded the tender for the assignment of fourth generation (4G) licenses, signed the implementing terms for the use of the radio frequencies in the 2.5 GHz band and for the provision of SMP and SCM services. Tim Celular paid 36.5 million Brazilian reais at that time, while the remaining amount will be paid by June 5, 2013.

Argentina

Auction for the user rights to mobile telephony frequencies

In relation to the public auction for the reassignment of the 850 MHz and 1900 MHz frequency bands released by Telefónica Móviles de Argentina S.A., on September 5, 2012 the *Secretaría de Comunicaciones* ("SC") notified Telecom Personal of Resolution SC no. 71/2012, which, by virtue of the rights set out in the call to tender, cancelled the auction called by Resolution SC no. 57/2011 for reasons of the expediency, merit and convenience for the government. In addition, the competent Ministry assigned the *Secretaría de Comunicaciones* the task of proposing the mechanisms and technical and legal instruments for the assignment of the frequencies covered by the auction to ARSAT, Empresa Argentina de Soluciones Satelitales S.A., owned by the Argentine government, as well as the task of developing a business plan for the use of the frequencies, directly or through third parties.

The management of Telecom Personal is currently assessing the various implications of Resolution no. 71/2012 for the company, and is also determining the measures required to ensure high quality mobile services.

Media

Digital frequencies and switch off

In order to avoid the infringement procedure against the Italian State 2005/5086 due to failure to correct the television duopoly system and amassing of frequencies, in 2010, it was decided to hold a tender through a so-called "beauty contest" for the assignment of the user rights to the frequencies for television bandwidth for digital terrestrial broadcasting as discussed in Decision 497/10/CONS.

With the publication of Law 44/12 in the April 28, 2012 Gazzetta Ufficiale, the beauty contest was cancelled.

The new law provides the assignment of the internal digital dividend through an auction within 120 days of the coming into force of the law, on the basis of procedures that will be established by AGCom, after consultation with the EU Commission, in compliance with the cap of five networks established by Decision 181/09/CONS.

TIMB filed an appeal (RG 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 adjournment to the EU Court of Justice, with the consequent obligation to conclude the beauty contest procedure, and
- to provide 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 fulfil the requisites established by the tender procedure and the Regulation).

The Administrative Court (TAR) of Lazio, in the Judges Chamber on July 11, 2012, postponed the discussion of the case which will be scheduled at the same time the appeal regarding the digital frequencies is discussed, by the end of 2012.
Having obtained proof that on September, 20 AGCom sent the EU Commission a draft of the regulation for the new economic auction for the assignment of internal digital dividend frequencies, on the September 28th, TIMB sent the Commission its own brief, asking that the Commission request that AGCom suspend its preparation of the new tender regulations and launch a market analysis to identify the effective strength of the parties operating in the sector and implement suitable corrective measures to safeguard competition. In the brief, TIMB also requested that the Commission specify the structural nature of the cap of 5 MUX, revoke the illegally assigned frequencies or the unused DVB-H frequencies, and prohibit participation by dominant operators.
According to Law 44/12, AGCom shall establish the administrative fees for the use of the television frequencies by the network operators. The new fee system for the network operators 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 concession fee will continue to be applied on activities that were carried out under concession granted to the former analogue television broadcasters.
The law provides other measures to favour 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 and starting from July 1, 2015, equipment receiving television services sold to consumers on national territory must integrate a digital tuner to receive DVB-T2 technology with MPEG-4 coding or subsequent evolutions.
In line with Law 75/11 which established June 30, 2012 as the final date for transforming the user rights of the digital frequencies from temporary to definitive, on June 28, 2012, the Ministry of Economic Development assigned TIMB the definitive user rights for 3 DVB-T frequencies for 20 years.
Since the user rights were assigned before June 30, 2012, the principle of technological neutrality and the services is not directly applicable. The network operators using digital terrestrial technology may request that the existing limitations be re-examined, by May 25, 2016.
With the act giving definitive assignment, the fourth frequency assigned to TIMB in 2008 in Sardinia is revoked, while the other three frequencies are unchanged. In keeping with the previous contestations regarding the digital frequencies, on October 26, 2012, the TIMedia Group filed an appeal against this act.

Order of channels

On August 31, 2012 four judgements were published – 4658/12, 4659/12, 4660/12 and 4661/12 – which cancel the automatic channel numbering Plan pursuant to Decision 366/10/CONS, following the appeals by Telenorba, SKY and several local broadcasters. Judgements 4659/12 and 4660/12 are particularly unfavourable. In particular, the latter, promoted by Telenorba, cancels the assignment of positions 7-8-9 to La7, MTV and DeeJay in favour of the local broadcaster, specifying that the positions of MTV and DeeJay were cancelled due the fact that they do not have the characteristics of generalist broadcasters, as they are targeted to young people and focused on music.
As these judgements are based on contradictory grounds and partly prejudiced by factual errors, in addition to legal errors, La7 and MTV intend to file appeals for revocation.
On September 4, 2012, AGCom implemented a measure which, following the indications of the judgements, extends the current LCN assignments until the new Plan is adopted. Considering the complexity of the fulfilments required, the new Plan will be issued within 180 days from the launch of the public consultation.
With Decision 442/12/CONS, published in the Gazzetta Ufficiale on October 19, 2012, AGCom launched a 30-day public consultation, alongside a new investigation of user habits and propensities. In the measure under consultation, AGCom clarifies that LCNs from 1 to 9 will be assigned to channels that have historical roots in the country in analogue and digital-analogue simulcast, which broadcast mainly generalist programs free-to-air with an information obligation.

TIMedia considers that it has solid grounds for having LCN 7 and LCN 8 confirmed. In particular, LCN 7 cannot be put in question. With regard to LCN 8, MTV fulfils AGCom's new definition. It would be erroneous, discriminatory, out of proportion and anti-competitive to treat La7 and MTV in a different manner from the six former analogue RAI-Mediaset channels.

Disputes and pending legal actions

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at 30 September 2012 are described below. The Telecom Italia Group has posted liabilities totalling 189 million euros for those disputes described below where the risk of losing the case has been considered probable.
For the following disputes and pending legal actions no significant facts have emerged with respect to what was published in the 2011 Annual Report:

- National tax disputes
- Investigation by the Public Prosecutor's Office of Monza
- Administrative offence charge pursuant to Legislative Decree 231/2011 for the so-called Telecom Italia Security Affair.

International tax and regulatory disputes

On March 22, 2011 Tim Celular was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1,265 million Reais (approximately 550 million euros) as of the date of the notification, including fines and interest, as a result of the completion of a tax investigation of financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A (previously called Maxitel), companies which have been progressively incorporated into Tim Celular with the aim of rationalising the corporate structure in Brazil.
The assessment notice includes various adjustments; the main claims may be summarised as follows:

- non-recognition of the fiscal effects of the merger of Tim Nordeste Telecomunicações S.A. and Maxitel S.A.
- non-recognition of the fiscal deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC").

The adjustments included in the assessment notice were challenged by Tim Celular, before the administrative court, with the submission of an initial defence on April 20, 2011.
On April 20, 2012 Tim Celular was served notice of the decision of the lower administrative court which confirmed the claims included in the assessment notice; against this decision, Tim Celular has promptly appealed on May 21, 2012.
The Management, as confirmed by fitting legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.
Again with regard to Tim Participações' subsidiary Brazilian companies, other cases of tax disputes are present including for significant amounts but with a risk of losing deemed improbable (for the aforementioned companies), on the basis of the legal opinions issued to the companies. The most relevant cases relate to the fiscal deductibility of the write-down of goodwill, indirect taxation and contributions to the local regulatory authority (ANATEL). Of the main disputes concerning indirect taxation, several disputes regarding lowering the tax base on the basis of discounts granted to customers may be noted; the regulatory authority however alleges that the company did not pay sufficient contributions to the FUST/FUNTTEL funds.

Telecom Italia Sparkle – Relations with I-Globe, Planetarium, Acumen, Acrrue Telemedia and Diadem: investigation by the Public Prosecutor's Office of Rome

The immediate trial of a series of people, including the former managing director and two former employees of Telecom Italia Sparkle, is going on. In relation to the previous updates provided, it must be noted that the crimes of which the former managing director and former employees of Telecom Italia Sparkle are accused are transnational conspiracy for the purpose of tax evasion and the crime of false declaration by the use of invoices or other documents for non-existent transactions.
In relation to this trial, Telecom Italia Sparkle made an application to bring a civil action against all the defendants. The Court ruled this application inadmissible in its hearing on 18 December 2010, since it

considered such an action incompatible with the company's position as a subject of investigation pursuant to legislative decree no. 231/2001.
The investigations into Telecom Italia Sparkle as a legal person in relation to the crime of transnational conspiracy are still incomplete, and in consequence it is not yet possible to have full knowledge of all the acts of the proceedings. It therefore follows that, given the complexity of the investigations and the incomplete information currently available, no definitive prediction of the outcome of the case can be formulated, notwithstanding and without prejudice to the defences that Telecom Italia Sparkle will pursue to the fullest extent permitted by law to demonstrate its non-involvement in the matters at issue.
Regarding the effects of any conviction pursuant to legislative decree no. 231/2001, in addition to the administrative fines and any interdiction, the profits of the crime would be confiscated, and in the current formulation of the charge by the public prosecutors and without prejudice to the defence considerations that will be developed in relation to this, would total approximately euro 72 million (a sum already guaranteed by bond and already set aside in the 2009 consolidated financial statements). Hence, based on the information available, the company expects no further material effects other than those for which provision has already been made and/or already seized (10 million euros are still under seizure for guarantees related to the proceedings).
So far as fiscal risk is concerned, the Agenzia delle Entrate has not, so far, issued notices of assessment in relation to the claim of the Guardia di Finanza relating to direct taxation (as far as indirect taxes are concerned, in July 2010 Telecom Italia Sparkle paid a proportion of the fines -25% of the sum imposed- of the whole of the VAT considered to be non-deductible, plus interest, to a total of 418 million euros).
However, it should be noted that some major regulatory orders have recently been issued regarding the non-deductibility of the costs and expenses of assets or the provision of services that are directly used to perform acts or activities that can be qualified as offences committed without criminal intent, as well as provisions on the punishability of the use of negative income components relating to goods not actually traded or services not actually provided.
In light of these new legal provisions, Telecom Italia Sparkle has obtained several opinions to update its assessment from authoritative professional advisers. These opinions confirmed that the risk of a claim is only possible, not probable. As a result, no provision to cover the fiscal risk for direct taxation has been made.

It should be noted that for some disputes, described below, on the basis of the information available at the closing date of this Interim Report on Operations and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of the payments due, if any. Moreover, in the case in which the disclosure of information relative to the dispute could seriously jeopardise the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.
Of the disputes with the aforementioned characteristics, no significant facts have emerged for those listed below with respect to what was published in the 2011 Annual Report:

- Dispute relative to "Adjustments on license fees" for the years 1994-1998
- FASTWEB
- FEDERAZIONE ANTI PIRATERIA AUDIOVISIVA (FAPAV)
- WIND
- EUTELIA and VOICEPLUS
- TELEUNIT
- Gruppo Elitel Telecom S.p.A.
- Dispute concerning the license fees for 1998

Antitrust Case A426

With reference to the investigation for abuse of the dominant position started by the Italian Antitrust Authority (AGCM) in May 2010, following a complaint filed by Fastweb (alleging that Telecom Italia acted so as to exclude its competitors in the public tenders held in 2010 by Consip and Enel for the award of

contracts for fixed telephony services and IP connectivity), note that on 19 June 2012 AGCM approved the undertakings proposed by Telecom Italia in order to remove all of the concerns advanced in the decision to open the investigation.
The investigation was thereby formally closed without assessing any infringement and the proposed undertakings became mandatory for the Company.

Antitrust Case A428

On June 23, 2010, prompted by complaints filed by Wind and Fastweb, AGCM started an investigation into two alleged abuses of dominant position by Telecom Italia. Firstly, according to Wind, Telecom Italia allegedly hindered or delayed the activation of access services, by means of unjustified and spurious refusals. Moreover, according to both complainants, Telecom Italia allegedly offered its access services to final customers at economic and technical conditions that could allegedly not be matched by competitors purchasing wholesale access services from Telecom Italia itself, only in those geographic areas of the Country where disaggregated access services to the local network are available, and hence where other operators can compete more fiercely with the Company.
In any case, with reference to one of the offers complained of (relating to an invitation to tender issued by the Florence municipal authority), on February 1, 2011, AGCom closed its investigation after verifying that the economic terms of Telecom Italia's offer with regard to traffic services could be matched by its competitors.
While reiterating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns advanced in the AGCM decision to open the investigation. AGCM initially published the proposal on its website (in August 2011) and invited comments from interested third parties, and then rejected it by decision served in March 2012. The Company appealed the rejection decision before the Administrative Court (TAR) for Lazio.
In the meantime, the investigation continues, and is scheduled to end on March 30, 2013. As things stand, it is not possible to opine about the outcome of the proceedings.

Antitrust Case I757

On September 12, 2012, AGCM started an investigation against Telecom Italia, Wind and Vodafone to ascertain the existence of an agreement restrictive of competition aimed at excluding from the market the new operator BIP Mobile S.r.l..
The latter company, which intends to present itself as the first "lowcost" virtual operator, does not have its own sales network, and will access the market using the multibrand distribution channel.. According to the complaint it submitted to AGCM, the company has been faced with cancellations by multibrand retailers that distribute mobile telephony products of various operators, allegedly induced by pressures that were supposedly "the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind".
The investigation is scheduled to be completed by 30 September 2013. Since the procedure is still at an early stage, an assessment of its outcome would be premature.

VODAFONE

In July 2006 Vodafone brought a case for compensation for damages (initially quantified as approximately 525 million euros, and subsequently adjusted to 759 million euros) before the Milan Appeal Court. The case involves a presumed abuse of its dominant position by Telecom Italia, which allegedly exploited its position in the fixed telephony markets to strengthen its position in the closely connected mobile communication services market, which tended to exclude and hence damage its competitor. Telecom Italia filed an appearance, fully contesting the claims of the other party.
In a judgement on 2 November 2011, the Appeal Court declared that it was not competent in this matter and referred the case to the Civil Court. The deadline for the resumption of the proceedings before the Court passed without resumption, and this resulted in the termination of the proceedings.

H3G

As part of a broader agreement with H3G, in June 2012 the following civil disputes were settled by mediation – without additional costs other than those for which provision had already been made:

- a case brought by H3G for compensation for damages for around 122 million euros alleging presumed discriminatory behaviour and unfair competition by Telecom Italia in relation to fixed-mobile termination in the period 2008/2010;
- a case brought by Telecom Italia for compensation of 230 million euros for damages related to the termination charges applied by H3G in the period between September 2005 and February 2008 which were higher than those applied to other operators;
- a case brought by H3G for compensation for damages for around 120 million euros alleging discriminatory behaviour by Telecom Italia in the market for calls from its mobile network to H3G network customers.
- an appeal by Telecom Italia before the Rome Appeal Court against the arbitration awards on the subject of mobile-mobile termination tariffs for the period between September 2005 and December 2007;
- a case brought by H3G claiming compensation for damages for around 60 million euros consequent to alleged violation of the mobile customer portability procedures;
- an injunction sought by Telecom Italia to recover approximately 21 million euros for additional costs to be borne by H3G for the repricing (July 2010 to February 2011) of the termination tariffs on the H3G mobile network (resolution 667/08/Cons).

Irregular sale of handsets to companies in San Marino - Investigation by the Public Prosecutor's Office of Forlì

In June 2012 the Company was notified of a search warrant issued by the Public Prosecutor's Office of Forlì, as part of a proceeding in which one employee and two former employees of the Company were under investigation. The alleged crimes were conspiracy for the purpose of committing crimes of "false declaration through the use of invoices or other documents for non-existent transactions" and the "issuing of invoices or other documents for non-existent transactions", in reference to an alleged system of carousel fraud carried out in 2007-2009 by the aforementioned three Telecom Italia employees with the participation of employees of Italian and San Marino companies, relating to the sale of mobile telephony handsets and accessories between different companies operating in Italy and San Marino.
The investigations concern the irregular sales of handsets in San Marino, which Telecom Italia had already brought to the attention of the Judiciary in December 2008. The same phenomenon was subject to audit and the so-called Greenfield Project, the results of which were then made available to the investigating Judicial Authority of Bologna which, initially, was in charge of the investigations. In this regard, note that, as a result of what emerged from the Greenfield Project, the Company took steps to independently regularise some invoices issued to the aforementioned San Marino companies and for which the fiscal obligations laid down had not been fully discharged. The documentation relating to this spontaneous regularisation activity was also sent to the Public Prosecutor's Office of Bologna which, in 2011, ordered that the case be dismissed.
Telecom Italia has therefore now provided the Public Prosecutor's Office of Forlì with all the material already handed over to the Public Prosecutor's Office of Bologna. The investigation is currently in progress and, to date the company has not been notified of anything; a proper assessment of the outcome of the proceedings is therefore premature.

POSTE

There are some pending actions brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, concerning non-payment by Poste of services rendered under a series of contracts to supply IT goods and services. The judgements issued in the lower courts established an outcome that was partially favourable to the ex-Olivetti, and have been appealed against by Poste in individual rehearings.

In this respect, while a judgement of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, another judgement by the same Court declared void one of the disputed contracts. After this judgement, Poste issued a writ for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgement of the Supreme Court considering amendment of the above judgement is still pending.
After the judgement of the Supreme Court that granted the Telecom Italia appeal and quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter of issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected.

Greece – DELAN

During 2009, the company Carothers Ltd., acting as successor of Delan Cellular Services S.A. ("Delan"), started against Wind Hellas (the new corporate name of TIM Hellas, the Greek subsidiary sold by the Telecom Italia Group in 2005) judicial proceedings for the compensation of damages, both precautionary and on the merits, before the Greek courts. Wind Hellas in turn summoned Telecom Italia International to appear, as guarantor, allegedly on the basis of the indemnification obligations contained in the stock purchase agreement for the sale of the subsidiary.
In April 2012 the Judge of First Instance declared the lack of jurisdiction on Telecom Italia International (whose contractual indemnification obligation falls under the law of New York and is subject to arbitration), while it condemned Wind Hellas to payment of damages to Carothers for an overall amount of approximately 85 million euros (including costs and accrued interests). The judgement has been entirely appealed by Wind Hellas.
Subsequently, Wind Hellas served Telecom Italia International with a request for an international arbitration, seeking for a declaration of its right to be held harmless for any possible negative outcome deriving from the ongoing appeal proceedings.
In August 2012, Telecom Italia International filed the answer to the request for arbitration and counterclaim, requesting – among others – compensation for damages as a result of breach of the arbitral clause contained in the Stock Purchase Agreement executed in 2005 in connection with the notice of joinder to Telecom Italia International as guarantor before the Greek Courts.

Germany – Telefónica arbitration

On February 23, 2012, Telecom Italia and Telecom Italia Deutschland Holding GmbH ("TIDE") entered into a settlement with Telefónica Germany, aimed at preventing a potential litigation related to compensation claims proposed by Telefónica in connection with the share purchase agreement for the sale of the holding in HanseNet, signed by the Group in 2009, as well as resolving the arbitration started in 2011 by Telefónica against Telecom Italia and TIDE.
On the basis of such agreement, a capital amount of approximately 40 million euros formerly deposited in escrow was withdrawn by Telecom Italia, while approximately 4.5 million euros were paid to Telefónica and approximately 16 million euros remained in escrow to cover certain specific potential future liabilities. In such framework Telefónica has withdrawn the aforementioned request for arbitration. The Arbitration Panel therefore ordered closing of the proceedings.

Brazil - Opportunity Arbitration

In late May 2012, Telecom Italia and Telecom Italia International N.V were served with an arbitration brought by the Opportunity Group, claiming restoration of damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement executed in 2005. Based on claimant's allegations, such damages would be related to matters emerged in the framework of the well known criminal proceedings pending before the Court of Milan regarding, among others, activities of former employees of the Security Department of Telecom Italia. Currently, the request for arbitration does not provide any specific indication of the damages claimed or evidences to support the demand.
In August, Telecom Italia and Telecom Italia International filed the answer to the request for arbitration and counterclaim, also bringing a claim for breach of the settlement agreement executed in 2005 in

connection with the civil action filed by Daniel Dantas and certain Opportunity Group companies in the aforementioned criminal proceedings before the Court of Milan and requesting compensation for damages. The Opportunity Group filed the answer to counterclaim.

Mobile telephony - criminal proceedings

With reference to the phenomenon of the prepaid SIM cards activated in 2005-2008 and not correctly associated with a customer identity document, recovery activities were completed on June 30, 2012 through the regularisation or termination of the remaining cards still in existence on that date. It should be noted that, at the start of the recovery activities, around 5.5 million SIM cards were not correctly associated with an identity document.

In March 2012 Telecom Italia was served notice of the conclusion of the preliminary enquiries, which shows that the Company is being investigated by the Public Prosecutor of Milan pursuant to the Legislative Decree n. 231/2001, for the offences of handling stolen goods (Art. 648 of the Criminal Code) and counterfeiting (Art. 491-bis of the Criminal Code) committed, according to the alleged allegations, by fourteen employees of the so-called “ethnic channel”, with the participation of a number of dealers, for the purpose of obtaining undeserved commissions from Telecom Italia. As the injured party damaged by such conduct, the Company had brought two legal actions in 2008 and 2009, and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defence, together with a technical report by its own specialist, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. As things stand, the prosecuting Public Prosecutor's Office has still not made any decisions following the remarks by the Company's defence.

There is also a pending criminal proceeding against a former Executive Director (Mr. Riccardo Ruggiero) and two former managers for the offence of “Preventing the public supervisory authorities from performing their functions” relative, in the statement of charges, to the communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards refilled with 0.01 euros, and the activation of 1,042,447 SIM cards deemed irregular and not refilled in the twelve months after activation. This proceeding initially also concerned the Company, pursuant to Legislative Decree n. 231/01. The latter however, following the application for committal for trial, during the preliminary hearing formulated a plea bargaining motion and at the same time a motion for the declaration of the statute of limitations for the acts committed up until May 31, 2007, and was admitted to the trial as a civil party against the three physical defendants.

During the hearing of July 10, 2012 the Preliminary Hearing Judge declared the statute of limitations, for the Company only, for the actions committed up until May 31, 2007; approved the plea bargaining motion of Telecom Italia and ordered it to pay a fine of 600 thousand euros, acknowledging that as from 2008 it adopted an organizational model suitable to prevent the commission of acts similar to those committed; ordered the committal for trial of the three former managers charged.

The first day of the full hearing was on 8 October 2012. At this time Telecom Italia filed a further motion to be admitted as a civil party to the trial of the three defendants. The following 18 October, the Telecom Italia Shareholders’ Meeting approved the settlement of the corporate liability proceedings against former Managing Director Riccardo Ruggiero, and decided not to apply for admission as a civil party.

TELETU

In a writ issued in February 2012, Telecom Italia has issued proceedings against the operator Teletu claiming compensation for alleged damages suffered due to unlawful refusals concerning the reactivation with Telecom Italia of Teletu's customers. The claim was quantified as approximately 93 million euros.

Corporate Boards at September 30, 2012

Board of Directors

The ordinary shareholders' meeting held on April 12, 2011 appointed the new board of directors of the Company, composed of 15 directors, for a three-year term (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 Executive Chairman, Aldo Minucci Deputy Chairman and Marco Patuano Managing Director and Chief Operating Officer.
Subsequently, on May 15, 2012, the shareholders' meeting confirmed the directors Lucia Calvosa and Massimo Egidi who were co-opted to replace resigning directors Ferdinando Falco Beccalli and Francesco Profumo, up to the end of the three-year term of office.
At September 30, 2012 the board of directors is composed of the following:

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

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 September 30, 2012:

- **Executive Committee** — Executive Chairman, Deputy Chairman, Managing Director, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli (*);
- **Committee for Internal Control and Corporate Governance**– 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 each of member of the board of directors can be viewed online at the website www.telecomitalia.com.

(*) The director Ferdinando Falco Beccalli had also been a member of the Committee.
(**) On September 29, 2011, the board of directors, having accepted the resignation of the director Francesco Profumo, appointed the director Lucia Calvosa to replace him. The Committee continues to be composed of only independent directors.
(***) On January 19, 2012, the board of directors appointed the director Massimo Egidi to replace the director Francesco Profumo.

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 (already an alternate auditor, drawn from the same list as Professor Bruno).
The board of statutory auditors is composed as follows at September 30, 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

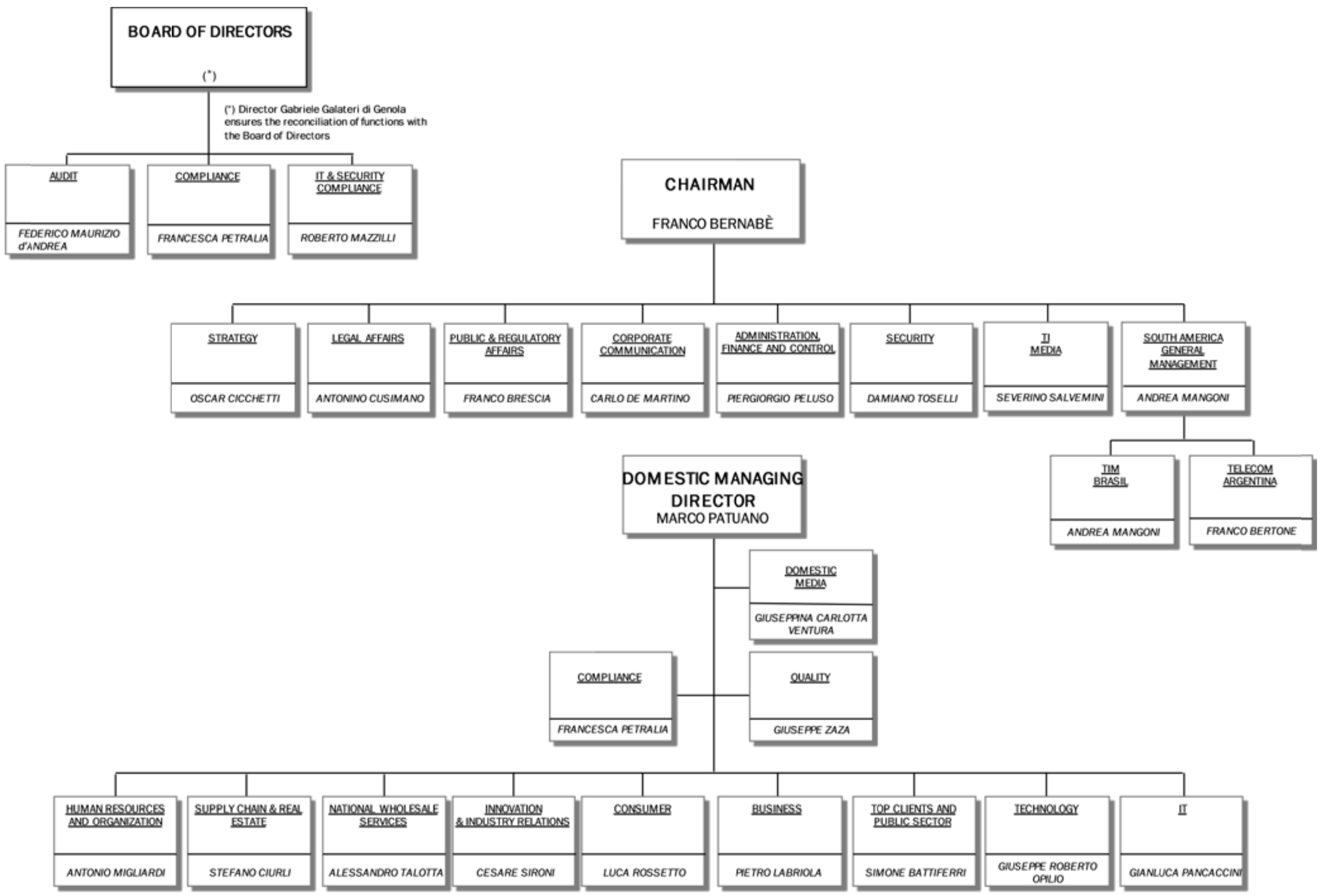
Independent Auditors

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 – Telecom Italia Group at September 30, 2012



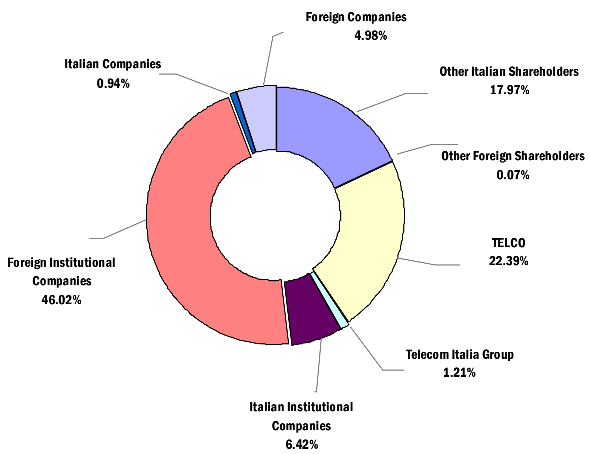
Information for Investors

Telecom Italia S.p.A. Share Capital at September 30, 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 September 2012 average prices)	14,813 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at September 30, 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 Corporate Governance and Share Ownership Structure, posted on the website at the following address: www.telecomitalia.com.

Major Holdings in Share Capital

At September 30, 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. 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%

Furthermore, the following companies, as investment management firms, notified Consob that they are in possession of Telecom Italia S.p.A. ordinary shares:

- Blackrock Inc.: on May 20, 2010, for a quantity of ordinary shares which at September 30, 2012 is equal to 2.89% of total Telecom Italia S.p.A. ordinary shares;
- Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares which at September 30, 2012 is equal to 2.06% of total Telecom Italia S.p.A. ordinary shares.

Common Representatives

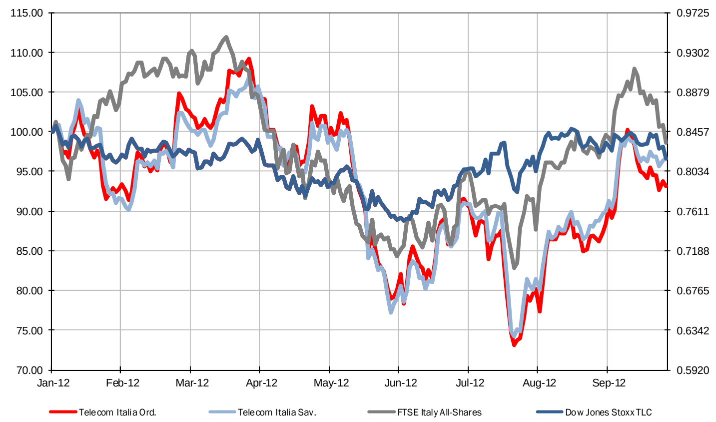
- The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2012).
- By decree of March 7, 2011, the Milan Court appointed Enrico Cotta 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 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.

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

Relative performance from 01/01/2012 to 09/30/2012

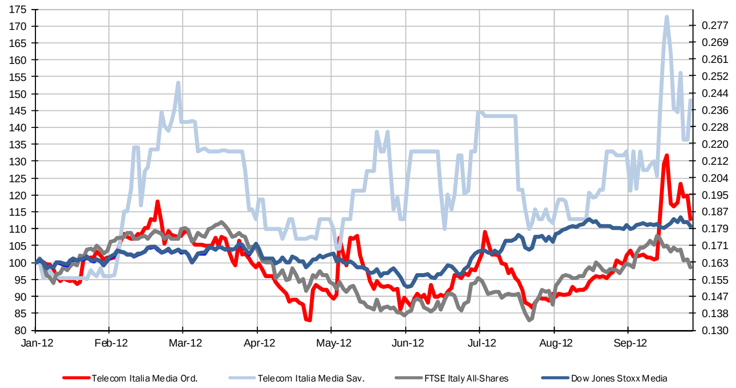
Telecom Italia S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx TLC Indexes

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



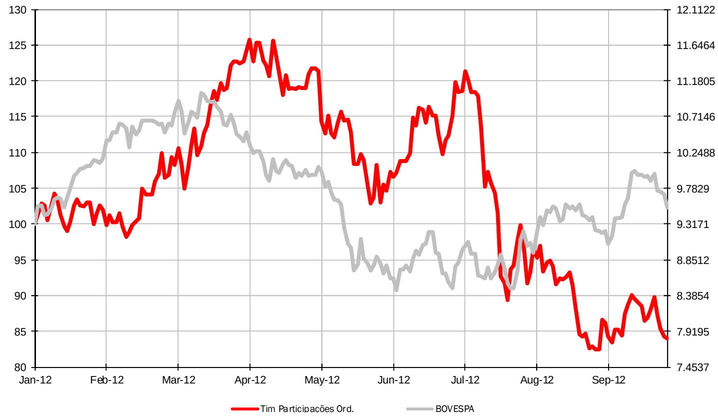
Telecom Italia Media S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx Media Indexes

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



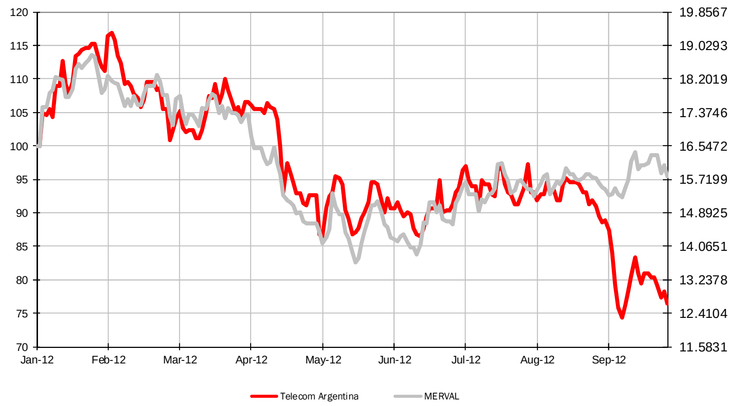
Tim Participações S.A. vs. BOVESPA Index (in Brazilian reais)

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



Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares and 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 and 5 Telecom Argentina S.A. Class B ordinary shares and 0.05 Nortel Inversora S.A. Class B preferred shares.

Rating at September 30, 2012

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

Purchase of shares of group companies

In the first nine months of 2012, 25,917 Telecom Italia Media savings shares were purchased at an average price per share including the brokerage commission equal to 0.20112 euros for a total of 5,212.46 euros.

Related Party Transactions

The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the separate consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.

In accordance with art. 5, paragraph 8 of Consob Regulation 17221/2010 concerning "related party transactions" and the subsequent Consob Resolution 17389/2010, it is noted that no significant transactions were entered into in the first nine months of 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 for the first nine months of 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 market conditions.

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 in the first nine months of 2012.

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, section Governance-channel governance system.

The effects on the individual line items of the separate consolidated income statements for the first nine months of 2012 and 2011 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 months to 09/30/2012

(millions of euros)	**Total**	**Related parties**								
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Revenues	**22,061**	27	1	747	–		**775**		**775**	3.5
Acquisition of goods and services	**9,676**	9	19	523	–		**551**		**551**	5.7
Employee benefits expenses	**2,901**	–	–	3	63	14	**80**		**80**	2.8
Finance income	**1,475**	–	–	35	–		**35**		**35**	2.4
Finance expenses	**2,875**	15	–	44	–		**59**		**59**	2.1

(*) Other related parties, through directors, statutory auditors and key managers.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 months to 09/30/2011

(millions of euros)	**Total**	**Related parties**								
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Revenues	**22,059**	59	2	744			**805**		**805**	3.6
Acquisition of goods and services	**9,442**	13	24	496			**533**		**533**	5.6
Employee benefits expenses	**2,922**	–	–	3	70	13	**86**		**86**	2.9
Finance income	**1,644**	–	–	138			**138**		**138**	8.4
Finance expenses	**3,140**	17	–	37			**54**		**54**	1.7

(*) Other related parties, through directors, statutory auditors and key managers.

The effects on the individual line items of the consolidated statements of financial position at September 30, 2012 and at December 31, 2011 are as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS — SEPTEMBER 30, 2012

(millions of euros)	Total	Related parties							
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Net financial debt									
Non-current financial assets	**(3,004)**	**–**	**–**	**(299)**	**–**	**(299)**		**(299)**	10.0
Securities other than investments (current assets)	**(643)**	–	–	–	–	**–**		**–**	–
Financial receivables and other current financial assets	**(545)**	(1)	–	(4)	–	**(5)**		**(5)**	0.9
Cash and cash equivalents	**(6,754)**	–	–	(372)	–	**(372)**		**(372)**	5.5
Discontinued operations/Non-current assets held for sale of a financial nature	**(1)**					**–**			–
Current financial assets	**(7,942)**	**(1)**	**–**	**(376)**	**–**	**(377)**		**(377)**	4.7
Non-current financial liabilities	**34,752**	**125**	**–**	**360**	**–**	**485**		**485**	1.4
Current financial liabilities	**6,166**	**110**	**–**	**141**	**–**	**251**		**251**	4.1
Total net financial debt	**29,971**	**234**	**–**	**(174)**	**–**	**60**		**60**	0.2
Other equity items									
Trade and miscellaneous receivables and other current assets	**7,206**	10	2	210	–	**222**		**222**	3.1
Miscellaneous payables and other non-current liabilities	**1,113**	–	–	2	–	**2**		**2**	0.2
Trade and miscellaneous payables and other current liabilities	**9,322**	15	32	174	26	**247**		**247**	2.6

(*) Other related parties, through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS — DECEMBER 31, 2011

(millions of euros)	**Total**	**Related parties**							
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Net financial debt									
Non-current financial assets	**(2,949)**	**–**	**–**	**(269)**	**–**	**(269)**		**(269)**	9.1
Securities other than investments (current assets)	**(1,007)**	–	–	(8)	–	**(8)**		**(8)**	0.8
Financial receivables and other current financial assets	**(462)**	–	–	(28)	–	**(28)**		**(28)**	6.1
Cash and cash equivalents	**(6,714)**	–	–	(278)	–	**(278)**		**(278)**	4.1
Current financial assets	**(8,183)**	**–**	**–**	**(314)**	**–**	**(314)**		**(314)**	3.8
Non-current financial liabilities	**35,860**	**151**	**–**	**332**	**–**	**483**		**483**	1.3
Current financial liabilities	**6,091**	**134**	**–**	**58**	**–**	**192**		**192**	3.2
Total net financial debt	**30,819**	**285**	**–**	**(193)**	**–**	**92**		**92**	0.3
Other equity items									
Trade and miscellaneous receivables and other current assets	**7,770**	36	1	220	–	**257**		**257**	3.3
Miscellaneous payables and other non-current liabilities	**1,156**			3		**3**		**3**	0.3
Trade and miscellaneous payables and other current liabilities	**10,984**	10	45	167	30	**252**		**252**	2.3

(*) Other related parties, through directors, statutory auditors and key managers.

The effects on the individual line items of the consolidated statements of cash flows for the first nine months of 2012 and 2011 are shown below:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 months to 09/30/2012

(millions of euros)	**Total**	Related parties							
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Purchase of intangible and tangible assets on an accrual basis	**3,380**	1	89	1		**91**		**91**	2.7
Dividends paid	**1,027**			139	–	**139**		**139**	13.5

(*) Other related parties, through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 months to 09/30/2011

(millions of euros)	**Total**	Related parties							
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Related to discontinued operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Purchase of intangible and tangible assets on an accrual basis	**3,190**	2	122	–		**124**		**124**	3.9
Dividends paid	**1,326**			191	1	**192**		**192**	14.5

(*) Other related parties, through directors, statutory auditors and key managers.

Remuneration to key managers

In the first nine months of 2012, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to 13.7 million euros (12.6 million euros in the first nine months of 2011), analysed as follows:

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011
Short-term remuneration	10.5	10.5
Long-term remuneration	1.3	1.2
Employment termination benefit incentives	1.0	
Stock payments (*)	0.9	0.9
	13.7	**12.6**

(*) These refer to the fair value of the rights, accrued to September 30, under Telecom Italia S.p.A.'s share-based incentive plans (PSG, TOP 2008 and LTI 2011/2012).

Short-term remuneration is disbursed during the year it refers to and, in any event, within six months of the end of the year.
Long-term remuneration is disbursed on accrual of the related rights.

In the first nine months of 2012, the contributions paid in to defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A. or by subsidiaries of the Group on behalf of key managers amount to 469,000 euros (280,000 euros at September 30, 2011).

In the first nine months of 2012, key managers, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the Telecom Italia Group, including directors, are the following:

Directors:	
Franco Bernabè	Executive Chairman and Chief Executive Officer of Telecom Italia S.p.A.
Marco Patuano	Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.
Senior Managers:	
Andrea Mangoni	South America General Manager (1) Head of Administration, Finance and Control & International Development(2)
Simone Battiferri	Head of Top Clients & Public Sector (3)
Franco Bertone	Chief Executive Officer of Telecom Argentina
Franco Brescia	Head of Public & Regulatory Affairs
Stefano Ciurli	Head of Supply Chain & Real Estate
Antonino Cusimano	Head of Legal Affairs
Luca Luciani	Chief Executive Officer of Tim Brasil (4)
Antonio Migliardi	Head of Human Resources & Organization
Giuseppe Roberto Opilio	Head of Technology
Piergiorgio Peluso	Head of Administration, Finance and Control (5)
Luca Rossetto	Head of Consumer
Alessandro Talotta	Head of National Wholesale Services

(1) from August 1, 2012.
(2) to September 25, 2012.
(3) from February 23, 2012.
(4) to May 4, 2012.
(5) from September 26, 2012.

Significant Non-recurring Events and Transactions

The effect of non-recurring events and transactions on the results of the Telecom Italia Group is set out below.

The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(millions of euros)	9 months to 09/30/2012	9 months to 09/30/2011
Acquisition of goods and services, other operating expenses, changes in inventories:		
Restructuring expenses	(13)	–
Sundry expenses	(11)	(2)
Expenses for corporate operations	–	(3)
Employee benefits expenses:		
Restructuring expenses	(17)	(2)
Impact on EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	**(41)**	**(7)**
Gains/(losses) on disposals of non-current assets:		
Gains on disposals of non-current assets	21	–
Net gain on disposal of Loquendo	–	35
Impairment reversals (losses) on non-current assets:		
Core Domestic goodwill impairment charge	–	(3,182)
Writedowns of tangible assets for restructuring	(2)	–
Impact on EBIT – Operating profit	**(22)**	**(3,154)**
Other expenses (income) from investments:		
Net gain on the disposal of EtecSA (Cuba)	–	17
Net losses on disposal of other investments	(2)	(1)
Finance expenses:		
Miscellaneous finance expenses	(4)	-
Impact on Profit (loss) before tax from continuing operations	**(28)**	**(3,138)**
Income taxes on non-recurring items	1	2
Discontinued operations	–	(11)
Impact on Profit (loss) for the period	**(27)**	**(3,147)**

Positions or Transactions Resulting from Atypical and/or Unusual Operations

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in the first nine months of 2012 no atypical and/or unusual transactions have been put into place, as defined by that Communication.

Alternative Performance Measures

In this Interim Report at September 30, 2012 of the Telecom Italia Group, 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 financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

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

- **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), 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
+/-	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	

- **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). 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 Interim Report as well as an analysis of the major non-organic components for the first nine months of 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 Interim Report includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.
  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 “Accounting net financial debt”) a new measure was introduced denominated “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)	**Accounting net financial debt**
d)	**Reversal of fair value measurement of derivatives and related financial assets/liabilities**
e=(c + d)	**Adjusted net financial debt**

Declaration by the Manager Responsible for Preparing the Corporate Financial Reports

The manager responsible for preparing the corporate financial reports declares, pursuant to paragraph 2, art. 154-bis of the Consolidated Law on Finance, that the accounting disclosure contained in the Interim Report at September 30, 2012 of the Telecom Italia Group corresponds to the Company's documents, accounting records and entries.

The Manager Responsible for Preparing
the Corporate Financial Reports

Piergiorgio Peluso