TELECOM ITALIA

Interim Report at March 31, 2012

Contents

This document has been translated into English solely for the convenience of the readers.
In the event of a discrepancy, the Italian language version 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 fiber 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, through the subsidiary Intelig Telecomunicações, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS. At the end of October 2011, the Tim Brasil group acquired control of two companies in the AES Atimus group, renamed Tim Fiber RJ and Tim Fiber SP. The companies will offer residential broadband services.

Tim Brasil Serviços e Participações S.A.

- Tim Participações S.A.
  - Intelig Telecomunicações Ltda
  - Tim Celular S.A.
    - Tim Fiber RJ S.A.
    - Tim Fiber SP Ltda

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 analog and digital broadcasting networks as well as accessory services and television broadcasting platforms.

Telecom Italia Media – La7

- 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 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	Gianluca Ponzellini
	Lorenzo Pozza
	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Silvano Corbella
	Maurizio Lauri
	Vittorio Mariani
	Ugo Rock

Key Financial and Operating Data – Telecom Italia Group

Q1 2012 Highlights

The first quarter of the year has confirmed the difficult macroeconomic and market landscape which has been a distinguishing feature, especially in Southern Europe, of recent changes in the economy.
The Group, in this climate, thanks to geographic diversification, streamlining of operating expenses and repositioning of the offering set out in its Business Plan, was able to combat the pressures of a recession on the domestic market and confirm the profile for the growth of consolidated revenues and profit.

- Consolidated Revenues are up 4.5% over the prior year first quarter (+5.3% in organic terms), to 7.4 billion euros, while EBITDA of 3.0 billion euros grew 1.2% (+0.5% in organic terms).
- Operating Profit (EBIT) is 1.6 billion euros, gaining 7.6% over the first quarter of 2011 (+5.7% in organic terms).
- Profit attributable to owners of the Parent (606 million euros) increased 10.4%.
- Cash flows generated during the quarter, although experiencing the seasonal effect of payments relating to the last quarter of the year, made it possible to further reduce Adjusted Net Financial Debt which at the end of the period is 30.3 billion euros.

Financial Highlights

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change % Reported	Change % Organic
Revenues	7,392	7,073	4.5	5.3
EBITDA (1)	2,963	2,929	1.2	0.5
EBITDA Margin	*40.1%*	*41.4%*		
Organic EBITDA Margin	*40.1%*	*42.0%*		
EBIT (1)	1,619	1,505	7.6	5.7
EBIT Margin	*21.9%*	*21.3%*		
Organic EBIT Margin	*21.9%*	*21.9%*		
Profit for the period attributable to owners of the Parent	606	549	10.4	
Capital expenditures (CAPEX)	954	901	5.9	

	3/31/2012	12/31/2011	Change
Adjusted net financial debt (1)	30,312	30,414	(102)

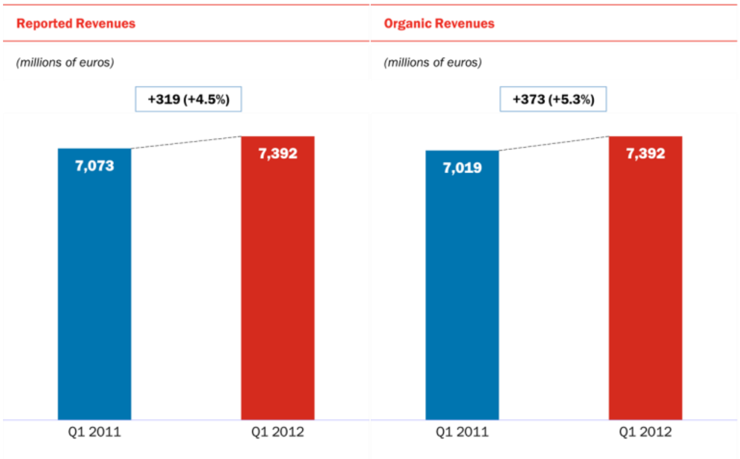
(1) Details are provided under "Alternative Performance Measures"

Consolidated Financial Performance in the First Quarter of 2012

Revenues

Revenues amount to 7,392 million euros in the first quarter of 2012, increasing 4.5% compared to 7,073 million euros in the first quarter of 2011 (+319 million euros). In terms of the organic change, consolidated revenues increased 5.3% (+373 million euros).
Specifically, the organic change in revenues is calculated by excluding:

- the effect of exchange differences equal to -51 million euros, relating to the Brazil Business Unit [1] (-27 million euros), the Argentina Business Unit [1] (-26 million euros) and other companies of the Group (+2 million euros);
- the effect of the change in the scope of consolidation (-3 million euros) in connection with the sale of the subsidiary Loquendo (Domestic Business Unit) on September 30, 2011.



The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Quarter 2012		1st Quarter 2011		Change		
		% of total		% of total	amount	%	% organic
Domestic	4,486	60.7	4,596	65.0	(110)	*(2.4)*	*(2.4)*
Core Domestic	*4,253*	*57.5*	4,396	62.2	*(143)*	*(3.3)*	*(3.2)*
International Wholesale	*347*	*4.7*	*317*	*4.5*	*30*	*9.5*	*8.8*
Brazil	1,928	26.1	1,646	23.3	*282*	*17.1*	*19.1*
Argentina	901	12.2	753	10.6	148	*19.7*	*24.0*
Media, Olivetti and Other Operations	118	1.6	131	1.9	(13)		
Adjustments and Eliminations	*(41)*	*(0.6)*	*(53)*	*(0.8)*	*12*		
Total consolidated revenues	**7,392**	**100.0**	**7,073**	**100.0**	**319**	**4.5**	**5.3**

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reports a declining trend in organic Revenues of 109 million euros compared to the first quarter of 2011 (-2.4%), with the main operating indicators confirming a structural improvement owing to the repositioning strategy undertaken by the mobile business and the focus on the value of the customer base in the fixed area.

(1) The average exchange rates used for the translation to euro (expressed in terms of units of local currency per 1 euro) are for the Brazilian real 2.31802 in the first quarter of 2012 and 2.28000 in the first quarter of 2011; for the Argentine peso the average exchange rates are 5.68751 in the first quarter of 2012 and 5.48989 in the first quarter 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.

Organic revenues from services (4,346 million euros in the first quarter of 2012) record a contraction of 2.3% and show an improvement over the previous quarters (-3.2% in the fourth and –3.7% in the third quarter of 2011).
Specifically, organic mobile revenues are lower by 3.7% but steadily improving over the previous quarters (-7.1% in the fourth quarter of 2011) thanks to a check in the erosion of sales of traditional services and the gains made in mobile internet revenues.
Even the fixed-line area, with revenues from services down 56 million euros (-1.7%), shows an increase compared to the fourth quarter of 2011 (-1.9%) owing to the emphasis on the value of the customer base which nevertheless posts a contraction of 4.5% compared to March 2011.
Product revenues total 140 million euros in the first quarter of 2012 and contracted (-7 million euros) compared to the first quarter of 2011 and can be entirely attributed to the fixed area. Mobile, on the other hand, shows an increasing trend driven by a greater sales push on handsets offering mobile internet connectivity.

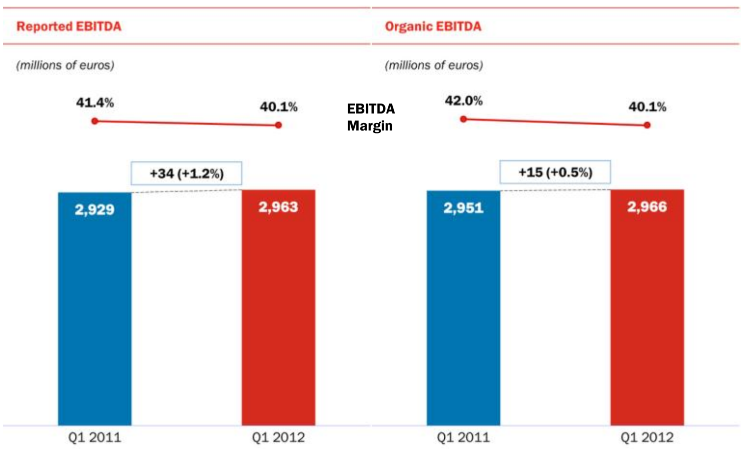
As for the **Brazil Business Unit**, organic revenues grew 19.1% in the first quarter of 2012 compared to the corresponding period of the prior year. Revenues from services continue to display a positive trend (+15.9% compared to the first quarter of 2011), always propelled by the growth of the customer base (over 67 million lines at March 31, 2012, up more than 27% compared to March 31, 2011). Handset revenues also show a significant increase (+56.7% compared to the first quarter of 2011) boosted, like the national business, by the greater penetration of smartphones and webphones as the lever for the growth of mobile data traffic revenues.

With respect to the **Argentina Business Unit,** organic revenues gained 24.0% compared to the first quarter of 2011 (+174 million euros); specifically, mobile business revenues (+146 million euros) recorded a growth of 28.6% while the fixed area grew 14.7% compared to the corresponding period of the prior year.

An in-depth analysis of revenue performance by individual Business Unit is provided in the section “The Business Units of the Telecom Italia Group”.

EBITDA

EBITDA is 2,963 million euros, increasing 34 million euros (+1.2%) compared to the corresponding period of the prior year; the EBITDA margin is 40.1% (41.4% in the first quarter of 2011). Organic EBITDA rose 15 million euros (+0.5%) over the same period of the prior year; the organic EBITDA margin is down 1.9 percentage points (40.1% in the first quarter of 2012 vs. 42.0% in the first quarter of 2011) owing to a higher percentage of total revenues by South America where margins are lower than the Domestic Business as well as higher mobile handset sales, aimed at a greater penetration of data services.



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

(millions of euros)	1st Quarter 2012	% of total	1st Quarter 2011	% of total	Change amount	Change %	Change % organic
Domestic	2,193	74.0	2,236	76.3	(43)	(1.9)	(3.4)
EBITDA margin	*48.9*		*48.7*		*0.2pp*		*(0.5)pp*
Brazil	505	17.0	452	15.4	53	11.7	13.5
EBITDA margin	*26.2*		*27.5*		*(1.3)pp*		*(1.3)pp*
Argentina	289	9.8	257	8.8	32	12.5	16.6
EBITDA margin	*32.1*		*34.1*		*(2.0)pp*		*(2.0)pp*
Media, Olivetti and Other Operations	(22)	(0.7)	(14)	(0.4)	(8)		-
Adjustments and Eliminations	*(2)*	*(0.1)*	*(2)*	*(0.1)*	-		-
Total consolidated EBITDA	**2,963**	**100.0**	**2,929**	**100.0**	**34**	**1.2**	**0.5**
EBITDA margin	*40.1*		*41.4*		*(1.3)pp*		*(1.9)pp*

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

- **Acquisition of goods and services (3,231 million euros; 2,995 million euros in the first quarter of 2011).** The increase of 236 million euros is largely due to the surge in the commercial and technical costs of the Brazil Business Unit (+ 188 million euros, including a negative exchange rate effect for 17 million euros) and of the Argentina Business Unit (+88 million euros, including a negative exchange rate effect for 11 million euros) needed to support the growth of the customer base, voice and data traffic volumes and, consequently sales in the Latin America area. Countering these changes is the national business which benefits from cost cutting actions which contributed to a reduction in purchases of 43 million euros compared to the first quarter of 2011.

- **Employee benefits expenses (998 million euros; 990 million euros in the first quarter of 2011)** Record a net increase of 8 million euros.
  The change was influenced by:
  - in the foreign component, an increase in the average headcount of the salaried workforce, mainly in the Brazil Business Unit and the Argentina Business Unit, by an average 1,236 (of which 70 from the consolidation of the companies Tim Fiber RJ and Tim Fiber SP in the Brazil BU);
  - in the Italian component, a decrease of ordinary employee benefits expenses, mainly due to the reduction in the average headcount of the salaried workforce of 1,255 compared to the first quarter of 2011.

- **Other operating expenses (456 million euros; 398 million euros in the first quarter of 2011).** The increase of 58 million euros is primarily in reference to the Brazil Business Unit (+47 million euros, including a negative exchange rate effect of 3 million euros) and the Argentina Business Unit (+21 million euros, including a negative exchange rate effect of 3 million euros) partially compensated by the Domestic Business Unit (-8 million euros). In particular:
  - writedowns and expenses in connection with credit management comprise mainly 91 million euros (80 million euros in the first quarter of 2011) referring to the Domestic Business Unit, 24 million euros (18 million euros in the first quarter of 2011) to the Brazil Business Unit and 12 million euros (7 million euros in the first quarter of 2011) to the Argentina Business Unit;
  - provision charges recorded for pending disputes refer mainly to 16 million euros (14 million euros in the first quarter of 2011) of the Brazil Business Unit, 5 million euros (27 million euros in the first quarter of 2011) of the Domestic Business Unit, and 4 million euros (2 million euros in the first quarter of 2011) of the Argentina Business Unit;
  - telecommunications operating fees and charges mostly refer to the Brazil Business Unit for 152 million euros (116 million euros in the first quarter of 2011), to the Domestic Business Unit for 16 million euros (14 million euros in the first quarter of 2011) and to the Argentina Business Unit for 17 million euros (14 million euros in the first quarter of 2011).

Depreciation and amortization

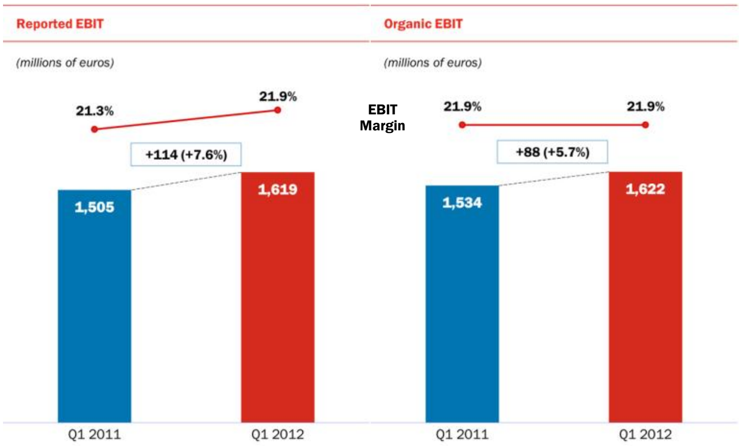
Details are as follows:

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Amortization of intangible assets with a finite useful life	542	566	(24)
Depreciation of property, plant and equipment – owned and leased	798	859	(61)
Total	**1,340**	**1,425**	**(85)**

The decrease in depreciation and amortization charges is mainly in reference to the Domestic Business Unit (-102 million euros), offset by the increase in depreciation and amortization charges of the Argentina Business Unit (+19 million euros, including a negative exchange rate effect for 4 million euros).

EBIT

EBIT is 1,619 million euros, increasing 114 million euros compared to the first quarter of 2011 (+7.6%); the EBIT margin is 21.9% (21.3% in the first quarter of 2011). The organic change in EBIT is an increase of 88 million euros (+5.7%); the organic EBIT margin is unchanged compared to the first quarter of 2011.



Other income (expenses) from investments

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

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

Finance income (expenses)

Finance income (expenses) is an expense balance of 439 million euros (an expense balance of 470 million euros in the first quarter of 2011). The improvement of 31 million euros is mainly in reference to the change in financial expenses as a result of the impact of bond buybacks in the first quarter of 2011, with a net debt exposure basically unchanged.

Income tax expense

Income tax expense is 457 million euros and increased 61 million euros compared to the first quarter of 2011 mainly due to the higher taxable base of the Parent, Telecom Italia, the Brazil Business Unit and also the Argentina Business Unit

Profit (loss) for the period

The profit for the period can be analyzed as follows:

(millions of euros)	1st Quarter 2012	1st Quarter 2011
Profit (loss) for the period	**720**	**652**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	606	549
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit for the period attributable to owners of the Parent	**606**	**549**
Non-controlling interests:		
Profit (loss) from continuing operations	114	103
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit (loss) attributable to Non-controlling interests	**114**	**103**

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

Domestic

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change		
			amount	%	% organic
Revenues	4,486	4,596	(110)	(2.4)	(2.4)
EBITDA	2,193	2,236	(43)	(1.9)	(3.4)
EBITDA margin	*48.9*	*48.7*		*0.2pp*	*(0.5)pp*
EBIT	1,278	1,222	56	4.6	1.7
EBIT margin	*28.5*	*26.6*		*1.9pp*	*1.2pp*
Headcount at period-end (number) (1)	55,621	(*) 55,389	232	0.4	

(1) The 232 headcount change incluldes the effects of the acquisition, from January 1, 2012, of the Contact Center business and the 249 relative reources from the company Advalso in the Olivetti Business Unit.

(*) Headcount at December 31, 2011.

Domestic fixed

	3/31/2012	12/31/2011	3/31/2011
Physical accesses at period-end (thousands)	21,562	21,712	22,098
of which Retail physical accesses at period-end (thousands)	14,457	14,652	15,145
Broadband accesses in Italy at period-end (thousands)	9,075	9,089	9,131
of which Retail broadband accesses (thousands)	7,092	7,125	7,194
Network infrastructure in Italy:			
access network in copper (millions of km – pair, distribution and connection)	112.3	112.2	111.7
access network in optical fiber (millions of km – fiber)	4.6	4.6	4.3
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,500	7,500
South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on fixed-line network (billions)	27.2	108.9	28.3
Domestic traffic	23.4	93.3	24.8
International traffic	3.8	15.6	3.5
DownStream and UpStream traffic volumes (PBytes)	540	1,937	489

Domestic mobile

	3/31/2012	12/31/2011	3/31/2011
Number of lines at period-end (thousands)	32,328	32,227	31,038
Change in lines (%)	0.3	3.9	0.1
Churn rate (%) (1)	6.3	21.9	5.5
Total average outgoing traffic per month (millions of minutes)	3,672	3,633	3,518
Total average outgoing and incoming traffic per month (millions of minutes)	4,879	4,843	4,680
Mobile browsing volumes (PByte) (2)	22.5	75.9	17.0
Average monthly revenues per line (in euros) (3)	15.9	17.4	17.0

(1) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
(2) National traffic excluding roaming.
(3) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

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

- **Core Domestic:** includes all telecommunications activities inherent to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU's results, excluding 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, from public telephony to the web portal/services of the company Matrix;
  - **Business:** is constituted by the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium 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 and operating data

Key results in the first quarter of 2012 by the Domestic Business Unit overall and by market/business segment compared to the first quarter of 2011 are presented in the following tables.

Core Domestic

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change amount	Change %	Change % organic
Revenues	4,253	4,396	(143)	(3.3)	(3.2)
Consumer	*2,190*	*2,216*	*(26)*	*(1.2)*	*(1.2)*
Business (°)	*726*	*773*	*(47)*	*(6.1)*	*(6.1)*
Top (°)	*775*	*833*	*(58)*	*(7.0)*	*(7.0)*
National Wholesale	*518*	*525*	*(7)*	*(1.3)*	*(1.3)*
Other	*44*	*49*	*(5)*	*(10.2)*	*(4.3)*
EBITDA	2,149	2,177	(28)	(1.3)	(2.8)
EBITDA margin	*50.5*	*49.5*		*1.0pp*	*0.2pp*
EBIT	1,257	1,190	67	5.6	2.7
EBIT margin	*29.6*	*27.1*		*2.5pp*	*1.7pp*
Headcount at period-end (number)	54,613	(*)54,380	233	0.4	

(*) Headcount at December 31, 2011.

(°) The data of the Business and Top segments in the first quarter of 2011 have been reclassified for purposes of comparison with the data of the first quarter of 2012, which takes into account the new customer classification criteria introduced at the beginning of 2012.

International Wholesale

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change amount	Change %	Change % organic
Revenues	347	317	30	9.5	8.8
of which third parties	*244*	*211*	*33*	*15.6*	*14.6*
EBITDA	48	61	(13)	(21.3)	(22.6)
EBITDA margin	*13.8*	*19.2*		*(5.4)pp*	*(5.6)pp*
EBIT	21	31	(10)	(32.3)	(32.3)
EBIT margin	6.1	*9.8*		*(3.7)pp*	*(3.6)pp*
Headcount at period-end (number)	1,008	(*) 1,009	(1)	(0.1)	

(*) Headcount at December 31, 2011.

Revenues

Revenues of all segments in the first quarter of 2012, although displaying a contraction, confirm a gradual recovery thanks to the growth of the mobile customer base, the policy focusing on ARPU (average revenues per user) in the fixed-line business and the effectiveness of new rate plan policies both in terms of slowing down the fall in prices (both fixed-line and mobile) and the development of new services, particularly in mobile internet. More to the point:

- **Consumer:** the Consumer segment reports a reduction in revenues of 26 million euros (-1.2%) compared to the first three months of 2011 and confirms the trend of recovery seen in 2011 thanks particularly to the stabilization of the erosion of voice revenues (both fixed and mobile), strong growth in mobile Internet revenues and an increase in handset sales. In fact, the decrease is entirely due to revenues from services (-57 million euros, -2.6%). This contraction is entirely attributable to traditional voice and messaging, for the most part offset by higher mobile internet revenues (+27 million euros, +17.5% compared to the first quarter of 2011) and fixed broadband accesses (+5 million euros, +2.2% compared to the same period of 2011);
- **Business:** the Business segment in the first quarter of 2012 shows a reduction in revenues of 47 million euros (-6.1%) compared to the first quarter of 2011. This decline is mostly in reference to

service revenues (-32 million euros) of which -22 million euros regards the fixed-line area, attributable entirely to the erosion of the customer base (-6.3% compared to 2011). As for mobile services, the reduction (-11 million euros) stems particularly from incoming traffic and roaming due to the effect of the fall in termination rates and the average level of prices, particularly for voice services.

- **Top**: the Top segment reports a reduction in revenues of 58 million euros (-7.0%) in the first quarter of 2012 compared to the same period of 2011. This shrinkage refers to both revenues from services (-35 million euros, -4.7%) and product sales (-23 million euros, -28.0%). The drop in revenues from services specifically comes from voice revenues (-18 million euros) and data revenues (-19 million euros). Such decline was only partly compensated by a growth in the mobile area (+4 million euros +1.4%);
- **National Wholesale:** the National Wholesale segment highlights a slight decrease in revenues in the first quarter of 2012 (-7 million euros, -1.3%) that can be traced largely to lower traffic revenues. The other types of revenues essentially display a stable trend.

International Wholesale Revenues

International Wholesale (the Telecom Italia Sparkle group) reports revenues of 347 million euros in the first quarter of 2012 or an increase of 30 million euros (+9.5%, +8.8% in organic terms) compared to the first three months of 2011. Such performance is almost entirely due to voice services (+31 million euros, +14.4%) and the IP business/Data (+5 million euros, +7.8%).

EBITDA

EBITDA of the Domestic Business Unit is 2,193 million euros in the first quarter of 2012, down 43 million euros compared to the first quarter of 2011 (-1.9%). The EBITDA margin is 48.9%, and an improvement compared to the first quarter of 2011 (+0.2 percentage points). The contraction in revenues from services impacted EBITDA (-102 million euros) and was offset in part by selective control and containment of costs.

Organic EBITDA in the first quarter of 2012 is 2,196 million euros (-78 million euros, -3.4% compared to the first quarter of 2011), with an organic EBITDA margin equal to 49%, slightly lower than the first quarter of 2011 (-0.5 percentage points).

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

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Acquisition of goods and services	1,564	1,607	(43)
Employee benefits expenses	757	779	(22)
Other operating expenses	153	161	(8)

In particular:

- *acquisition of goods and services:* shrunk 43 million euros (-2.7%) compared to the same period of 2011. Such contraction is mainly due to a decrease in the amounts to be paid to other operators, owing principally to the reduction in mobile termination rates and the curbing of other external costs which produced a reduction despite higher industrial costs, particularly energy;
- *employee benefits expenses*: fell 22 million euros compared to the same period of 2011 (-2.8%) attributable mostly to the reduction in the average headcount of the salaried workforce by 1,004 compared to the first quarter of 2011);
- *other operating expenses:* are down 8 million euros vs. the first quarter of 2011. The contraction stems mostly from lower provision charges which compensate the increase in writedowns and expenses connected with credit management, particularly in the Business segment. Details are as follows:

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Writedowns and expenses in connection with credit management	91	80	11
Provision charges	5	27	(22)
Telecommunications operating fees and charges	16	14	2
Indirect duties and taxes	27	25	2
Sundry expenses	14	15	(1)
Total	**153**	**161**	**(8)**

EBIT

EBIT is 1,278 million euros, increasing 56 million euros compared to the first quarter of 2011 (1,222 million euros); the EBIT margin is 28.5% (26.6% in the corresponding period of the prior year). The increase in EBIT can largely be ascribed to lower depreciation and amortization (-102 million euros compared to the first quarter of 2011) as a result of the reduction in depreciable and amortizable assets.

Organic EBIT is 1,281 million euros, up 22 million euros (+1.7% compared to the first quarter of 2011); the organic EBIT margin is 28.6%, or 1.2 percentage points higher vs. the first quarter of 2011 (27.4%).

Brazil

	(millions of euros)		(millions of Brazilian reais)			
	1st Quarter 2012 (a)	1st Quarter 2011 (b)	1st Quarter 2012 (c)	1st Quarter 2011 (d)	Change amount (c-d)	Change % (c-d)/d
Revenues	1,928	1,646	*4,468*	3,752	716	19.1
EBITDA	505	452	*1,170*	1,031	139	13.5
EBITDA margin	*26.2*	*27.5*	*26.2*	*27.5*		*(1.3)pp*
EBIT	*236*	184	*546*	418	128	30.6
EBIT margin	*12.2*	*11.1*	*12.2*	*11.1*		*1.1pp*
Headcount at period-end (number)			*10,737*	(*) 10,539	198	1.9

(*) Headcount at December 31, 2011.

	1st Quarter 2012	1st Quarter 2011
Lines at period-end (thousands)	67,204	(*) 64,070
MOU (minutes/month)	126	126
ARPU (reais)	19.1	20.8

(*) Number at December 31, 2011.

Main financial data

Revenues

Revenues total 4,468 million reais, up 716 million reais compared to the corresponding period of 2011 (+19.1%). Revenues from services in the first quarter of 2012 are 4,015 million reais, increasing from 3,463 million reais in the same period of 2011 (+15.9%). Revenues from the sale of products increased from 289 million reais in the first quarter of 2011 to 453 million reais in the first quarter of 2012 (+56.7%), reflecting higher penetration of the customer base with high-value smartphones and webphones as leverage for the development of the revenues from data services.
The ARPU for the first three months of 2012 is over 19.1 reais compared to 20.8 reais for the same period of 2011 (-8.0%).
Total lines at March 31, 2012 number 67.2 million, growing 4.9% over December 31, 2011 and 27.2% over March 31, 2011, corresponding to a 26.80% market share.

EBITDA

EBITDA in the first quarter of 2012 is 1,170 million reais, gaining 139 million reais compared to the same period of 2011 (+13.5%); the increase in the EBITDA margin is supported by higher revenues mainly relating to outgoing voice traffic and VAS, countered in part by the increase in variable costs in relation to business expansion.
The EBITDA margin is 26.2%, down 1.3 percentage points compared to the same period of 2011. This result is the consequence of the strong growth in smartphones/webphones, (+56.7% compared to the first quarter of 2011) which feature lower margins.

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

	(millions of euros)		(millions of Brazilian reais)		
	1st Quarter 2012 (a)	1st Quarter 2011 (b)	1st Quarter 2012 (c)	1st Quarter 2011 (d)	Change (c-d)
Acquisition of goods and services	1,200	1,012	2,782	2,307	475
Employee benefits expenses	89	81	206	185	21
Other operating expenses	203	156	471	356	115
Change in inventories	(45)	(32)	(104)	(74)	(30)

- *acquisition of goods and services:* totals 2,782 million reais (2,307 million reais in the first quarter of 2011). The increase of 20.6% compared to the first quarter of 2011 (+475 million reais) can be analyzed as follows:
  - +234 million reais for purchases of raw materials, auxiliaries, consumables and merchandise (of which +200 million reais is product cost),
  - +44 million reais for external services costs,
  - +131 million reais for the portion of revenues to be paid to other TLC operators,
  - +66 million reais for rent and lease costs;
- *employee benefits expenses* amount to 206 million reais, increasing 21 million reais compared to the first quarter of 2011 (+11.4%). The average headcount grew from 9,259 in the first quarter of 2011 to 9,682 in the same period of 2012. The percentage of employee benefits expenses to revenues is 4.6% decreasing 0.3 percentage points compared to the first quarter of 2011;
- *other operating expenses:* amount to 471 million reais, increasing 32.3% (356 million reais in the first quarter of 2011). Such expenses consist of the following:

(million reais)	1st Quarter 2012	1st Quarter 2011	Change
Writedowns and expenses in connection with credit management	56	42	14
Provision charges	38	33	5
Telecommunications operating fees and charges	352	265	87
Indirect duties and taxes	15	7	8
Sundry expenses	10	9	1
Total	**471**	**356**	**115**

EBIT

EBIT is 546 million reais, increasing 128 million reais over the first quarter of 2011. This increase is due to a higher contribution by EBITDA offset to a marginal degree by higher depreciation and amortization charges of 8 million reais (621 million reais in the first quarter of 2012 compared to 613 million reais in the same period of 2011).

Argentina

	(millions of euros) 1st Quarter 2012 (a)	1st Quarter 2011 (b)	(millions of Argentine pesos) 1st Quarter 2012 (c)	1st Quarter 2011 (d)	Change Amount (c-d)	% (c-d)/d
Revenues	901	753	5,126	4,134	992	24.0
EBITDA	289	257	1,644	1,410	234	16.6
EBITDA margin	*32.1*	*34.1*	*32.1*	*34.1*		*(2.0)pp*
EBIT	143	130	816	715	101	14.1
EBIT margin	*15.9*	*17.3*	*15.9*	*17.3*		*(1.4)pp*
Headcount at period-end (number) (*)			16,591	(**)16,350	241	1.5

(*) Includes employees with temp work contracts: 1 at 3/31/2012 and at 12/31/2011.
(**) Headcount at December 31, 2011.

	3/31/2012	12/31/2011	Change amount	%
Fixed-line				
Lines at period-end (thousands)	4,138	4,141	(3)	(0.1)
ARBU - Average Revenue Billed per User (Argentine pesos)	46.9	(°) 43.7	3.2	7.3
Mobile				
Lines at period-end (thousands)	20,750	20,342	408	2.0
Telecom Personal lines (thousands)	18,547	18,193	354	1.9
% Postpaid lines (**)	*32%*	*32%*		-
MOU Telecom Personal (minutes/month)	93	(°) 96	(3)	(3.1)
ARPU Telecom Personal (Argentine pesos)	54.9	(°) 47.4	7.5	15.8
Núcleo mobile lines (thousands) (***)	2,203	2,149	54	2.5
% Postpaid lines (**)	*17%*	*17%*		-
Broadband				
Broadband accesses at period-end (thousands)	1,566	1,550	16	1.0
ARPU (Argentine pesos) (****)	95.6	(°) 82.2	13.4	16.3

(°) Data relating to the first quarter 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.

Revenues

Revenues in the first quarter of 2012 amount to 5,126 million pesos, increasing 992 million pesos (+24.0%) compared to the same period of 2011 (4,134 million pesos) thanks to the growth of the broadband and mobile customer bases, in addition to the relative ARPU.
The main source of revenues for the Argentina Business Unit is mobile telephony which grew by more than 28% over the same period of the prior year. Such revenues accounted for more than 72% of the consolidated revenues of the Business Unit.

Fixed-line telephony service: the number of fixed lines at March 31, 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 rose by 7.3% compared to the first quarter of 2011 owing to the sale of plans which include minutes of traffic and value-added services.

Mobile telephony service: Telecom Personal mobile lines in Argentina increased by 354 thousand compared to the end of 2011, arriving at a total of 18,547 thousand lines at March 31, 2012, 32% of which were postpaid. At the same time, thanks to high-value customer acquisitions and clear leadership in the smartphone segment, ARPU gained almost 16% reaching 54.9 pesos (47.4 pesos in the first quarter of 2011). A large part of this growth can be traced to value-added services (including SMS text messaging) and the mobile internet service which, on the whole, accounts for approximately 52% of revenues from mobile telephony services in the first quarter of 2012.
In Paraguay, the Núcleo customer base grew about 2.5% compared to December 31, 2011 and at March 31, 2012 has 2,203 thousand lines, 17% of which were postpaid.

Broadband: Telecom Argentina's portfolio of total broadband lines at March 31, 2012 reached 1,566 thousand accesses, with an increase of 16 thousand accesses compared to the end of 2011 and representing 1% growth. During the first quarter of 2012, the growth of internet access lines was accompanied by a price increase with a consequent rise in ARPU.

EBITDA

EBITDA is up 234 million pesos (+16.6%), compared to the first quarter of 2011, reaching 1,644 million pesos in the first quarter of 2012. The EBITDA margin is 32.1%, down 2.0 percentage points compared to the same period of 2011, mainly due to higher costs for the acquisition of goods and services and employee benefits expenses.
With regard to changes in costs, the following is noted:

	(millions of euros)		(millions of Argentine pesos)		
	1st Quarter 2012	**1st Quarter 2011**	**1st Quarter 2012**	**1st Quarter 2011**	**Change**
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	395	307	2,245	1,683	562
Employee benefits expenses	122	99	696	541	155
Other operating expenses	98	77	556	424	132
Change in inventories	(2)	16	(10)	86	(96)

- *acquisition of goods and services:* totals 2,245 million pesos (1,683 million pesos in the first quarter of 2011). The increase of 33.4% compared to the same period of the prior year (+562 million pesos) is mainly due to higher outside service costs for 316 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise for 203 million pesos;
- *employee benefits expenses:* stand at 696 million pesos, increasing 155 million pesos compared to the first quarter of 2011 (+28.7%). The increase comes from salary rises, as a result of periodical revisions in union agreements and is largely connected to inflation. Moreover, an increase is recorded in the average number of employees in the mobile area. The percentage of employee

benefits expenses to total revenues is 13.6%, growing 0.5 percentage points over the first quarter of 2011;

- *other operating expenses:* amount to 556 million pesos, increasing 31.1% (424 million pesos in the first quarter of 2011). Such expenses consist of the following:

(millions of Argentine pesos)	1st Quarter 2012 (a)	1st Quarter 2011 (b)	Change (a-b)
Writedowns and expenses in connection with credit management	69	39	30
Telecommunications operating fees and charges	98	77	21
Indirect duties and taxes	364	298	66
Sundry expenses	25	10	15
Total	**556**	**424**	**132**

EBIT

EBIT rose by 101 million pesos (+14.1%) in the first quarter of 2012 reaching 816 million pesos, mainly as a result of a higher contribution from EBITDA.
The EBIT margin is 15.9%, down 1.4 percentage points compared to the same period of 2011.

Media

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change	
			amount	%
Revenues	58	52	6	11.5
EBITDA	(6)	2	(8)	n.s.
EBITDA margin	*n.s.*	*3.8*		
EBIT	(21)	(13)	(8)	n.s.
EBIT margin	*n.s.*	*n.s.*		
Headcount at period-end (number)	827	(*) 765	62	8.1

(*) Headcount at December 31, 2011.

	3/31/2012	3/31/2011
La7 audience share Free to Air (average during the period, in %)	3.4	3.4
Advertising revenues (millions of euros)	64.9	54.8

At March 31, 2012, Telecom Italia Media Broadcasting's three Digital Multiplexes (excluding the fourth, which is currently operating only in Sardinia) covered 90.1%, 94.2%, and 75.0% of the Italian population, respectively.

Revenues

Revenues amount to 58 million euros in the first quarter of 2012, increasing 6 million euros compared to 52 million euros in the first quarter of 2011. Specifically:

- revenues of TI Media – La7 in the first quarter of 2012, before infragroup eliminations, stand at 36 million euros, increasing 3 million euros compared to the corresponding period of 2011, thanks to the increase in total gross advertising revenues which in the first quarter of 2012 are 56 million euros (+28.4% over the same period of 2011). Advertising revenues particularly benefitted from the excellent performance of channel La7's daily average audience share in the first three months of 2012 which reached 3.4% and also from channel La7d's net advertising revenues in the first quarter of 2012 which totaled 2 million euros (+39.0%);
- MTV group revenues came to 12 million euros, before intragroup eliminations, decreasing 2 million euros compared to the first quarter of 2011 (14 million euros). This reduction is due to lower net advertising revenues (8 million euros in the first quarter of 2012 compared to 10 million euros in the first quarter of 2011) whereas overall the other activities have remained basically unchanged;
- revenues from network operator activities (TIMB), before intragroup eliminations, total 18 million euros, compared to 13 million euros in the first quarter of 2011, increasing 5 million euros. The positive change is due both to the evolution of existing contracts and new channels put under contract at the end of 2011 for digital terrestrial TV broadcasting in Multiplexes, which led to the full use of the available digital band.

EBITDA

EBITDA is a negative 6 million euros in the first quarter of 2012 compared to a positive 2 million recorded in the first quarter of 2011. In particular:

- EBITDA of Telecom Italia Media – La7, comes to –15 million euros, down 12 million euros compared to the first quarter of 2011 (-3 million euros); this result largely reflects higher operating costs connected mostly with the programming costs of channels La7 and La7d due to the launch of new programs and new faces compared to the first quarter of 2011, aimed at consolidating and extending the current viewing targets. The result was also adversely affected by the absence of profits from the Competence Center business which ceased operations in September 2011;

- EBITDA of the MTV group is -2 million euros, decreasing 1 million euros compared to the first quarter of 2011 as a result of the contraction in advertising revenues that were only partly compensated by the reduction in operating costs;
- EBITDA relating to network operator activities is 11 million euros, improving 5 million euros over the first quarter of 2011. This result was influenced by the above increase in sales while operating costs are basically in line with the first quarter of 2011.

EBIT

EBIT is a negative 21 million euros, decreasing 8 million euros compared to the first quarter of 2011 and generally reflect the above-described change in EBITDA.

Olivetti

Effective January 1, 2012, the activities and the resources of the Advalso S.p.A. Contact Center were sold to Telecontact Center S.p.A. (a subsidiary of Telecom Italia), under the project aimed at the unitary management – under the control of Telecontact Center – of the call center activities conducted in the Telecom Italia Group.

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change		
			amount	%	% organic
Revenues	59	78	(19)	(24.4)	(18.1)
EBITDA	(14)	(14)	-	-	-
EBITDA margin	*n.s.*	*n.s.*			
EBIT	(15)	(15)	-	-	-
EBIT margin	*n.s.*	*n.s.*			
Headcount at period-end (number)	811	(*) 1,075	(264)	(24.6)	

(*) Headcount at December 31, 2011.

Revenues

Revenues amount to 59 million euros in the first quarter of 2012, decreasing 19 million euros compared to the first three months of the prior year. Nevertheless overall revenues on a comparable scope of consolidation basis decreased 13 million euros, with a negative organic change of 18.1%. If the revenues under the agreements with the Parent, Telecom Italia S.p.A., regulating trademarks and patents are excluded, the reduction is 8 million euros (-11.9%).
The decrease in revenues is largely associated with lower sales for 6 million euros in the international sales channel (sales to extra EU and extra Latin America customers). Of this amount more than 4 million euros is due to the supply of specialized printers to customers in the Far East on a different monthly time basis compared to the prior year and approximately 1 million euros to the cancellation of some supply contracts with unsatisfactory margins. Another 3 million is caused by lower sales in the indirect channel in Italy, the channel most exposed to the current market crisis which particularly hit the SME and professional offices customer channel. Revenues increased in South America, a market with strong growth such that expectations are for a strengthening of Olivetti's presence there.

EBITDA

EBITDA is a negative 14 million euros, unchanged compared to the same period of the prior year. The changes in the scope of consolidation did not have a significant effect on EBITDA. The decline in margins due to the fall in sales is more than compensated by the reduction in costs for 2 million euros (lower fixed costs and lower employee costs).

EBIT

EBIT is a negative 15 million euros, unchanged compared to the first quarter of the prior year.

Consolidated Financial Position and Cash Flow Performance

Non-current assets

- **Goodwill**: decreased 14 million euros, from 36,957 million euros at the end of 2011 to 36,943 million euros at March 31, 2012 due to the exchange rate effect of the Brazilian and Argentine companies.
  It should be noted that there were no events, circumstances or changes in key variables such as to require an update of the impairment test of goodwill carried out at the time of the preparation of the consolidated financial statements of the Telecom Italia Group at December 31, 2011.

- **Other intangible assets:** decreased 194 million euros, from 8,600 million euros at the end of 2011 to 8,406 million euros at March 31, 2012, being the balance of the following:
  - additions (+424 million euros);
  - amortization charge for the period (-542 million euros);
  - capitalization of borrowing costs relating to the acquisition of the user rights for the LTE mobile telephony frequencies (+15 million euros); the interest rate is between 5.3% and 6%;
  - disposals, exchange differences, reclassifications and other movements (for a net balance of -91 million euros).

- **Tangible assets:** decreased 361 million euros from 15,948 million euros at the end of 2011 to 15,587 million euros at March 31, 2012, being the balance of the following:
  - additions (+530 million euros);
  - depreciation charge for the period (-798 million euros);
  - disposals, exchange differences, reclassifications and other movements (for a net balance of -93 million euros).

Consolidated equity

Consolidated equity is 27,074 million euros (26,695 million euros at December 31, 2011), of which 23,156 million euros is attributable to owners of the Parent (22,791 million euros at December 31, 2011) and 3,918 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)	3/31/2012	12/31/2011
At the beginning of the period	**26,695**	**32,555**
Total comprehensive income (loss) for the period	376	(4,605)
Dividends declared by:	-	(1,302)
Telecom Italia S.p.A.	-	*(1,184)*
Other Group companies	-	*(118)*
Issue of equity instruments	-	7
Effect of increase in economic interest in Argentina BU	-	(210)
Effect of capital transactions by companies in the Brazil BU	-	240
Other changes	3	10
At the end of the period	**27,074**	**26,695**

Cash flows

Adjusted net financial debt during the first quarter of 2012 was mainly impacted by the following:

Change in adjusted net financial debt

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
EBITDA	2,963	2,929	34
Capital expenditures on an accrual basis	(954)	(901)	(53)
Change in net operating working capital:	(1,387)	(952)	(435)
Change in inventories	(48)	(39)	(9)
Change in trade receivables and net amounts due on construction contracts	118	161	(43)
Change in trade payables (*)	(1,014)	(816)	(198)
Other changes in operating receivables/payables	(443)	(258)	(185)
Change in provisions for employee benefits	2	1	1
Change in operating provisions and Other changes	2	(1)	3
Net operating free cash flow	**626**	**1,076**	**(450)**
% of Revenues	8,5	*15,2*	*(6,7)pp*
Sale of investments and other disposals flow	10	377	(367)
Financial investments flow	(7)	(156)	149
Finance expenses, income taxes and other net non-operating requirements flow	(527)	(451)	(76)
Reduction/(Increase) in adjusted net financial debt	**102**	**846**	**(744)**

(*) 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, adjusted net financial debt during the first quarter of 2012 has been particularly impacted by the following items:

Capital expenditures on an accrual basis

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

(millions of euros)	1st Quarter 2012		1st Quarter 2011		Change
		% of total		% of total	
Domestic	589	61.7	663	73.6	(74)
Brazil	234	24.5	130	14.4	104
Argentina	121	12.7	91	10.1	30
Media, Olivetti and Other Operations	10	1.1	17	1.9	(7)
Adjustments and Eliminations	-	-	-	-	-
Total consolidated capital expenditures	**954**	**100.0**	**901**	100.0	53
% of Revenues	*12.9*		*12.7*		*0.2pp*

Capital expenditures total 954 million euros in the first quarter of 2012, increasing 53 million euros (+5.9%) compared to the first quarter of 2011. In particular:

- the **Domestic Business Unit** records a reduction of 74 million euros particularly because of less need to accept deliveries for new plant due to a slowdown and contraction of fixed-line business;
- the **Brazil Business Unit** posts an increase of +104 million euros (including an exchange effect of 2 million euros) for dedicated network infrastructure expenditures to expand voice and data traffic;
- the **Argentina Business Unit** increased capital expenditures by +30 million euros (including an exchange effect of 3 million euros). Besides the increase in customer acquisition costs, capitalized

on binding contracts (18 months for mobile customers and 12 months for broadband customers), investments were aimed at extending the optical fiber infrastructure and the access network, the development of backhauling for mobile traffic, DWDM technology and the expansion of the IP backbone in order to improve transmission capacity and increase access speeds offered to customers. Moreover, Telecom Personal invested mainly to increase capacity and extend 3G network coverage as well as strengthen the platforms for value-added services and IT projects. Investments by Núcleo were earmarked primarily for the 3G access network.

Change in net operating working capital

The change during the period is -1,387 million euros. In particular:

- the change in trade payables (-1,014 million euros) is related to seasonal disbursements. The last quarter of the year, in fact, has a high concentration of expenses for capital expenditures and external costs (higher than 30% of the total annual amount) which are mostly paid in the following quarter on the basis of the normal payment terms established by contract;
- the change in other operating receivables/payables (net flow of -443 million euros during the quarter), includes the negative effects – for approximately 300 million euros – following the payment of taxes connected with telecommunications operating activities by the Brazil Business Unit, which is paid in a one-time disbursement by the end of the month of March of each year;
- credit management generated a positive impact of 118 million euros during the quarter while the change in inventories produced a negative effect of 48 million euros attributable mainly to the Brazil Business Unit as a result of the policies for the supply of mobile handsets, aimed at sustaining the growing dynamics of this component of sales.

Sale of investments and other disposals flow

Sale of investments and other disposals flow totals 10 million euros in the first quarter of 2012 and principally refers to the collection of the installments on the sale of the investment in EtecSA Cuba at the end of January 2011.
In the first quarter of 2011, the flow was equal to 377 million euros and of that amount 374 million euros was the amount already collected, net of the related incidental costs, on the sale of the Cuban subsidiary.

Financial investments flow

The financial investments flow refers mainly to the payment of incidental expenses and other payables in connection with the acquisition of investments during the last part of the year. In the first quarter of 2011, the amount was 156 million, mainly referring to the increase in the interest held in the Sofora - Telecom Argentina group.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during the first quarter of 2012, of income taxes and also the change in non-operating receivables and payables.

Net financial debt

Net financial debt is composed as follows:

(millions of euros)	3/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	22,722	24,478	(1,756)
Amounts due to banks, other financial payables and liabilities	10,102	10,078	24
Finance lease liabilities	1,273	1,304	(31)
	34,097	**35,860**	**(1,763)**
Current financial liabilities (*)			
Bonds	3,588	3,895	(307)
Amounts due to banks, other financial payables and liabilities	2,134	1,951	183
Finance lease liabilities	239	245	(6)
	5,961	**6,091**	**(130)**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	-	-	-
Total Gross financial debt	**40,058**	**41,951**	**(1,893)**
Non-current financial assets			
Securities other than investments	(11)	(12)	1
Financial receivables and other non-current financial assets	(2,405)	(2,937)	532
	(2,416)	**(2,949)**	**533**
Current financial assets			
Securities other than investments	(674)	(1,007)	333
Financial receivables and other current financial assets	(497)	(462)	(35)
Cash and cash equivalents	(5,492)	(6,714)	1,222
	(6,663)	**(8,183)**	**1,520**
Financial assets included in Discontinued operations/Non-current assets held for sale	-	-	-
Total financial assets	**(9,079)**	**(11,132)**	**2,053**
Accounting net financial debt	**30,979**	**30,819**	**160**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(667)*	*(405)*	**(262)**
Adjusted net financial debt	**30,312**	**30,414**	**(102)**
Breakdown as follows:			
Total adjusted gross financial debt	**37,513**	**39,382**	**(1,869)**
Total adjusted financial assets	**(7,201)**	**(8,968)**	**1,767**
(*) of which current portion of medium/long-term debt:			
Bonds	*3,588*	*3,895*	*(307)*
Amounts due to banks, other financial payables and liabilities	*1,296*	*1,064*	*232*
Finance lease liabilities	*239*	*245*	*(6)*

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.

In managing market risks, the Group has adopted a "Guideline policy for debt management using derivative instruments" and mainly uses IRS and CCIRS derivative financial instruments.
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 actual figures at June 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 three months of 2012 resulted in a positive effect on net financial debt at March 31, 2012 of 672 million euros (1,334 million euros at December 31, 2011).

Gross financial debt

Bonds

Bonds at March 31, 2012 are recorded for 26,310 million euros (28,373 million euros at December 31, 2011). Their nominal repayment amount is 25,257 million euros, decreasing 1,718 million euros compared to December 31, 2011 (26,975 million euros).

With regard to the change in bonds during the first quarter of 2012, there were no new bond issues whereas the following repayments are reported:

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 1,222.5 million euros 6.25% (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

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

As occurred in past years, during the first quarter 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(*)	Euro	12	January 2012
Telecom Italia Finance S.A. 693 million euros 6.875% maturing January 2013(*)	Euro	66	January – March 2012

(*) 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 is 368 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at March 31, 2012, the nominal amount is equal to 249 million euros and decreased by 17 million euros compared to 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 March 31, 2012. These are represented by the revolving credit facility for a total of 8 billion euros expiring August 2014, the syndicated revolving line for a total of 1.25 billion euros expiring February 2013 and the revolving credit line for a total of 200 million euros signed December 20, 2010 and expiring June 19, 2012 (renewable at the discretion of Telecom Italia, up to December 18, 2013):

(billion euros)	3/31/2012		12/31/2011	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring February 2013	1.25	0.25	1.25	0.25
Revolving Credit Facility – expiring August 2014	8.0	2.0	8.0	2.0
Revolving Credit Facility expiring June 2012 (renewable to December 2013)	0.2	0.2	0.2	0.2
Total	**9.45**	**2.45**	**9.45**	**2.45**

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

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.32 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 5.5%.

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:

(millions of euros)	maturing by 3/31 of the year: 2013	2014	2015	2016	2017	After 2017	Total
Bonds	3,127	2,497	2,358	3,618	1,400	12,257	25,257
Loans and other financial liabilities	972	1,757	2,718	1,077	560	2,046	9,130
Finance lease liabilities	225	109	178	152	137	696	1,497
Total	**4,324**	**4,363**	**5,254**	**4,847**	**2,097**	**14,999**	**35,884**
Current financial liabilities	815	-	-	-	-	-	815
Total	**5,139**	**4,363**	**5,254**	**4,847**	**2,097**	**14,999**	**36,699**

Current financial assets and liquidity margin

The Telecom Italia Group's available liquidity margin, calculated as the sum of Cash and cash equivalents and current Securities other than investments, amounts to 6,166 million euros at March 31, 2012 (7,721 million euros at December 31, 2011) which, together with its unused committed credit lines for 7 billion euros above, allows the Group to amply meet its repayment obligations over the next 24 months.

In particular:

Cash and cash equivalents amount to 5,492 million euros (6,714 million euros at December 31, 2011). The different technical forms of investing available cash at March 31, 2012, which include euro commercial paper for 185 million euros, can be analyzed as follows:

- Maturities: investments have a maximum maturity of three months;
- Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality. 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 674 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 534 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 "Guideline for investments of liquidity using financial instruments" adopted by the Telecom Italia Group in July 2009, and also 140 million euros of bonds with different maturities, but all with an active market, that is, readily convertible into cash.

"Covenants", "Negative pledges" and other contract clauses in effect at March 31, 2012

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,056 million euros (out of a total of 2,971 million euros at March 31, 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 (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- "Clause for Inclusion" contemplated in the loan secured on August 5, 2011 for the 100 million euro: where there are more restrictive clauses (for example, cross default clauses, financial covenants, commitments restricting the sale of goods) granted 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 until the total amount of the remaining principal does not exceed 500 million euros;
- for all loans not secured by collateral, if the Company's credit 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 of 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), 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 agreement.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change of 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 TI 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 of 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 of 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 art. 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 contemplates 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 art. 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. The amount disbursed is currently 250,000,000 euros;
- *Revolving credit facility* (200,000,000 euros). The agreement was signed between Telecom Italia and Unicredit S.p.A. on December 20, 2010 and contemplates a discipline basically identical to that of the February 12, 2010 credit facility. The amount disbursed is currently 200,000,000 euros;
- *Bonds*. The regulations covering the bonds issued under the EMTN Programme by both Olivetti and Telecom Italia and 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 of the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default;
- *Contracts with the European Investment Bank (EIB).* The total nominal amount is 2.95 billion euros. The contracts signed by Telecom Italia with the EIB, for an amount of 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 communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract. Specifically:
  - the loan contract signed by Telecom Italia with EIB on August 5, 2011, for an amount of 100 million euros, and the three contracts – covered, respectively, by bank guarantees and guarantees provided by Sace S.p.A. – signed on September 26, 2011, for a total amount of 200 million euros, carry the obligation, for Telecom Italia, of promptly informing the bank about changes regarding the bylaws or its shareholders. Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the four contracts in

question, a change of control is generated if a subject or group of subjects acting in concert acquires control of Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder of Telecom Italia S.p.A. which at the date of the contract holds, directly or indirectly, at least 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. or Mediobanca S.p.A. or their subsidiaries;

  - furthermore, the three contracts covered by guarantees, signed on September 26, 2011, envisage the clause for inclusion according to which in the event Telecom Italia commits to uphold in other loan contracts, among other things, financial covenants which are not present or are more restrictive than those granted to the EIB, 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 until the total amount of the remaining principal does not exceed 500 million euros;

- *Export Credit Agreement* (residual nominal amount of 37,573,952 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, equal to about 53 million euros). The contract was signed in October 2011 between BBVA Banco Francés and Tierra Argentea S.A (a wholly-owned subsidiary of the Telecom Italia Group) and provides for the repayment of the loan in 2016. The loan is guaranteed by two pledges of (i) 15,374,858 Telecom Argentina shares and (ii) 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares. The covenants established by contract, in the form of negative covenants or financial covenants, are consistent with those of syndicated loans and with local market practice; there is also a change of control clause which requires the full early repayment of the loan should the Telecom Italia Group hold less than a 100% interest in Tierra Argentea S.A. or lose control of the other Argentine subsidiaries.

Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial covenants (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, otherwise a request could be made for the early repayment of the loan.

Finally, as of March 31, 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 – Telecom Italia Group

The Interim Report at March 31, 2011 of the Telecom Italia Group has been prepared as set out in art. 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").
In the preparation of the Interim Report, the same accounting policies and consolidation principles have been adopted as those used in the preparation of the annual consolidated financial statements at December 31, 2011 of the Telecom Italia Group, to which reference can be made, except for new standards and interpretations (including improvements and amendments) adopted by the Group beginning January 1, 2012 and previously described in the Annual Report 2011. Such new standards and interpretations did not have any impact on the Interim Report at March 31, 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 is beyond the scope of the Group's control.

Principal changes in the scope of consolidation

Companies entering the scope of consolidation:

- *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.*
- *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.*

Companies exiting the scope of consolidation:

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

Interim Separate Consolidated Income Statements

(millions of euros)	1st Quarter 2012 (a)	1st Quarter 2011 (b)	Change (a-b) amount	%
Revenues	**7,392**	**7,073**	**319**	**4.5**
Other income	52	48	4	8.3
Total operating revenues and other income	**7,444**	**7,121**	**323**	**4.5**
Acquisition of goods and services	(3,231)	(2,995)	(236)	(7.9)
Employee benefits expenses	(998)	(990)	(8)	(0.8)
Other operating expenses	(456)	(398)	(58)	(14.6)
Changes in inventories	53	49	4	8.2
Internally generated assets	151	142	9	6.3
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**2,963**	**2,929**	**34**	**1.2**
Depreciation and amortization	(1,340)	(1,425)	85	6.0
Gains (losses) on disposals of non-current assets	(4)	-	(4)	°
Impairment reversals (losses) on non-current assets	-	1	(1)	°
Operating profit (loss) (EBIT)	**1,619**	**1,505**	**114**	**7.6**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(3)	(4)	1	25.0
Other income (expenses) from investments	-	17	(17)	°
Finance income	803	952	(149)	(15.7)
Finance expenses	(1,242)	(1,422)	180	12.7
Profit (loss) before tax from continuing operations	**1,177**	**1,048**	**129**	**12.3**
Income tax expense	(457)	(396)	(61)	(15.4)
Profit (loss) from continuing operations	**720**	**652**	**68**	**10.4**
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-	-	-
Profit (loss) for the period	**720**	**652**	**68**	**10.4**
Attributable to:				
• **Owners of the Parent**	**606**	**549**	**57**	**10.4**
• Non-controlling interests	114	103	11	10.7

(euro) **Basic and Diluted Earnings per Share:**	1st Quarter 2012	1st Quarter 2011
Ordinary share	0.03	0.03
Savings share	0.04	0.04
of which:		
from Continuing operations		
ordinary share	0.03	0.03
savings share	0.04	0.04
from Discontinued Operations/Non-current assets held for sale		
ordinary share	-	-
savings share	-	-

Interim Consolidated Statements of Comprehensive Income

In accordance with IAS 1 *(Presentation of Financial Statements)*, the following interim 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)		1st Quarter 2012	1st Quarter 2011
Profit (loss) for the period	**(a)**	**720**	**652**
Other components of the Statements of Comprehensive Income:			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		25	5
Loss (profit) transferred to the Separate Consolidated Income Statement		-	-
Net fiscal impact		(4)	(1)
	(b)	**21**	**4**
Hedging instruments:			
Profit (loss) from fair value adjustments		(511)	(20)
Loss (profit) transferred to the Separate Consolidated Income Statement		222	321
Net fiscal impact		80	(84)
	(c)	**(209)**	**217**
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(156)	(350)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		-	-
Net fiscal impact		-	-
	(d)	**(156)**	**(350)**
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		-	-
	(e)	**-**	**1**
Total	**(f=b+c+d+e)**	**(344)**	**(128)**
Total profit (loss) for the period	**(a+f)**	**376**	**524**
Attributable to:			
Owners of the Parent		**366**	**628**
Non-controlling interests		10	(104)

Interim Consolidated Statements of Financial Position

(millions of euros)		3/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		36,943	36,957	(14)
Other intangible assets		8,406	8,600	(194)
		45,349	**45,557**	**(208)**
Tangible assets				
Property, plant and equipment owned		14,515	14,854	(339)
Assets held under finance leases		1,072	1,094	(22)
		15,587	**15,948**	**(361)**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		43	47	(4)
Other investments		38	38	-
Non-current financial assets		2,416	2,949	(533)
Miscellaneous receivables and other non-current assets		1,204	1,128	76
Deferred tax assets		1,317	1,637	(320)
		5,018	**5,799**	**(781)**
Total Non-current assets	(a)	**65,954**	**67,304**	**(1,350)**
Current assets				
Inventories		496	447	49
Trade and miscellaneous receivables and other current assets		8,056	7,770	286
Current income tax receivables		25	155	(130)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		1,171	1,469	*(298)*
Cash and cash equivalents		5,492	6,714	*(1,222)*
		6,663	8,183	*(1,520)*
Current assets sub-total		**15,240**	**16,555**	**(1,315)**
Discontinued operations/Non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	-	-
		-	-	-
Total Current assets	(b)	**15,240**	**16,555**	**(1,315)**
Total Assets	(a+b)	**81,194**	**83,859**	**(2,665)**

(millions of euros)		3/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		23,156	22,791	365
Equity attributable to non-controlling interests		3,918	3,904	14
Total Equity	(c)	**27,074**	**26,695**	**379**
Non-current liabilities				
Non-current financial liabilities		34,097	35,860	(1,763)
Employee benefits		856	850	6
Deferred tax liabilities		958	1,056	(98)
Provisions		839	831	8
Miscellaneous payables and other non-current liabilities		1,177	1,156	21
Total Non-current liabilities	(d)	**37,927**	**39,753**	**(1,826)**
Current liabilities				
Current financial liabilities		5,961	6,091	(130)
Trade and miscellaneous payables and other current liabilities		9,978	10,984	(1,006)
Current income tax payables		254	336	(82)
Current liabilities sub-total		**16,193**	**17,411**	**(1,218)**
Liabilities directly associated with discontinued operations/non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	-	-
		-	-	-
Total Current Liabilities	(e)	**16,193**	**17,411**	**(1,218)**
Total Liabilities	(f=d+e)	**54,120**	**57,164**	**(3,044)**
Total Equity and Liabilities	(c+f)	**81,194**	**83,859**	**(2,665)**

Interim Consolidated Statements of Cash Flows

(millions of euros)		1st Quarter 2012	1st Quarter 2011
Cash flows from operating activities:			
Profit (loss) from continuing operations		720	652
Adjustments for:			
Depreciation and amortization		1,340	1,425
Impairment losses (reversals) on non-current assets (including investments)		1	2
Net change in deferred tax assets and liabilities		298	260
Losses (gains) realized on disposals of non-current assets (including investments)		4	(17)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		3	4
Change in employee benefits		2	1
Change in inventories		(48)	(39)
Change in trade receivables and net amounts due from customers on construction contracts		118	161
Change in trade payables		(661)	(270)
Net change in current income tax receivables/payables		46	30
Net change in miscellaneous receivables/payables and other assets/liabilities		(421)	(98)
Cash flows from (used in) operating activities	**(a)**	**1,402**	**2,111**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(424)*	*(404)*
Purchase of tangible assets on an accrual basis		*(530)*	*(497)*
Total purchase of intangible and tangible assets on an accrual basis		(954)	(901)
Change in amounts due to fixed asset suppliers		*(353)*	*(546)*
Total purchase of intangible and tangible assets on a cash basis		(1,307)	(1,447)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(7)	-
Acquisitions/disposals of other investments		-	(1)
Change in financial receivables and other financial assets		758	546
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		(5)	(1)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		15	378
Cash flows from (used in) investing activities	**(b)**	**(546)**	**(525)**
Cash flows from financing activities:			
Change in current financial liabilities and other		(728)	(838)
Proceeds from non-current financial liabilities (including current portion)		297	1,130
Repayments of non-current financial liabilities (including current portion)		(1,672)	(1,470)
Share capital proceeds/reimbursements (including subsidiaries)		(2)	-
Dividends paid		-	-
Changes in ownership interests in consolidated subsidiaries		-	(155)
Cash flows from (used in) financing activities	**(c)**	**(2,105)**	**(1,333)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**-**	**-**
Aggregate cash flows	**(e=a+b+c+d)**	**(1,249)**	**253**
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)**	-	(65)
Net cash and cash equivalents at end of the period	**(h=e+f+g)**	**5,421**	**5,470**

Additional Cash Flow Information

(millions of euros)	1st Quarter 2012	1st Quarter 2011
Income taxes (paid)/received	(57)	(57)
Interest expense paid	(1,027)	(947)
Interest income received	312	314
Dividends received	-	-

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Quarter 2012	1st Quarter 2011
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	5,492	5,487
Bank overdrafts repayable on demand – from continuing operations	(71)	(17)
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	-	-
	5,421	**5,470**

Changes in Equity from January 1, 2011 to March 31, 2011

(millions of euros)	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	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings, including profit (loss) for the period	Total	Equity attributable to Non-controlling interests	Total equity
	Equity attributable to owners of the Parent									
Balance at December 31, 2010	**10,600**	**1,697**	**(7)**	**(284)**	**1,401**	**(1)**	**15,413**	**28,819**	**3,736**	**32,555**
Changes in equity during the period:										
Total comprehensive income (loss) for the period			4	217	(143)	1	549	**628**	(104)	**524**
Grant of equity instruments							3	**3**	-	**3**
Effect of increase in economic stake in Argentina Business Unit							(39)	**(39)**	(114)	**(153)**
Other changes							1	**1**	(2)	**(1)**
Balance at March 31, 2011	**10,600**	**1,697**	**(3)**	**(67)**	**1,258**	**-**	**15,927**	**29,412**	**3,516**	**32,928**

Changes in Equity from January 1, 2012 to March 31, 2012

(millions of euros)	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	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings, including profit (loss) for the period	Total	Equity attributable to Non-controlling interests	Total equity
	Equity attributable to owners of the Parent									
Balance at December 31, 2011	**10,604**	**1,704**	**(4)**	**(74)**	**1,089**	**(1)**	**9,473**	**22,791**	**3,904**	**26,695**
Changes in equity during the period:										
Total comprehensive income (loss) for the period			21	(209)	(52)		606	**366**	10	**376**
Other changes							(1)	**(1)**	4	**3**
Balance at March 31, 2012	**10,604**	**1,704**	**17**	**(283)**	**1,037**	**(1)**	**10,078**	**23,156**	**3,918**	**27,074**

Analysis of the main consolidated financial and operating items

Acquisition of goods and services

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Acquisition of goods	594	484	110
Portion of revenues to be paid to other operators and interconnection costs	1,080	1,031	49
Commercial and advertising costs	542	566	(24)
Energy, maintenance and outsourced services	452	356	96
Rent and leases	167	158	9
Other service expenses	396	400	(4)
Total Acquisition of goods and services	**3,231**	**2,995**	**236**
% sui Revenues	*43,7*	*42,3*	*1,4 pp*

Employees benefits expenses

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Employee benefits expenses - Italy	778	801	(23)
Employee benefits expenses – Outside Italy	220	189	31
Total Employee benefits expenses	**998**	**990**	**8**
% of Revenues	*13,5*	*14,0*	*(0,5) pp*

Average headcount of the salaried workforce

(equivalent number)	1st Quarter 2012	1st Quarter 2011	Change
Average salaried headcount – Italy	52,374	53,629	(1,255)
Average salaried headcount – Outside Italy	25,711	24,475	1,236
Total Average salaried headcount (1)	**78,085**	**78,104**	**(19)**

(1) Includes headcount with temp work contracts: 55 average headcount in the first quarter of 2012 (53 in Italy and 2 outside Italy). In the first quarter of 2011, the average headcount was 97 (79 in Italy and 18 outside Italy).

Headcount at period-end

(number)	3/31/2012	12/31/2011	Change
Headcount – Italy	56,919	56,878	41
Headcount – Outside Italy	27,706	27,276	430
Total(1)	**84,625**	**84,154**	**471**

(1) Includes headcount with temp work contracts: 65 at March 31, 2012 and 42 at December 31, 2011.

Headcount at period-end – Breakdown by Business Unit

(number)	3/31/2012	12/31/2011	Change
Domestic	55,621	55,389	232
Brazil	10,737	10,539	198
Argentina	16,591	16,350	241
Media	827	765	62
Olivetti	811	1,075	(264)
Other operations	38	36	2
Total	**84,625**	**84,154**	**471**

Other income

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Late payment fees charged for telephone services	18	18	-
Recovery of employee benefit expenses, purchases and services rendered	9	5	4
Capital and operating grants	4	7	(3)
Damage compensation, penalties and sundry recoveries	7	5	2
Sundry income	14	13	1
Total	**52**	**48**	**4**

Other operating expenses

(millions of euros)	1st Quarter 2012	1st Quarter 2011	Change
Writedowns and expenses in connection with credit management	128	107	21
Provision charges	25	45	(20)
Telecommunications operating fees and charges	185	144	41
Indirect duties and taxes	98	83	15
Penalties, settlement compensation and administrative fines	5	5	-
Association dues and fees, donations, scholarships and traineeships	7	6	1
Sundry expenses	8	8	-
Total	**456**	**398**	**58**

Reconciliation between reported data and organic data

EBITDA – reconciliation of organic data

(millions of euros)	Domestic		TELECOM ITALIA GROUP	
	1st Quarter 2012	1st Quarter 2011	1st Quarter 2012	1st Quarter 2011
HISTORICAL EBITDA	**2,193**	**2,236**	**2,963**	**2,929**
Changes in the scope of consolidation		-		-
Foreign currency financial statements translation effect		1		(15)
Non-organic (income) expenses	3	37	3	37
Disputes and settlements	*1*	*6*	*1*	*6*
Other (income) expenses	*2*	*31*	*2*	*31*
COMPARABLE EBITDA	**2,196**	**2,274**	**2,966**	**2,951**

EBIT – reconciliation of organic data

(millions of euros)	Domestic		TELECOM ITALIA GROUP	
	1st Quarter 2012	1st Quarter 2011	1st Quarter 2012	1st Quarter 2011
HISTORICAL EBIT	**1,278**	**1,222**	**1,619**	**1,505**
Changes in the scope of consolidation		-		-
Foreign currency financial statements translation effect		-		(8)
Non-organic (income) expenses already described under EBITDA	3	37	3	37
COMPARABLE EBIT	**1,281**	**1,259**	**1,622**	**1,534**

Events Subsequent to March 31, 2012

On May 9, 2012, the board of directors of Telecom Italia decided to start the process for the disposal of the activities in the Media sector.

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, for the full year 2012:

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

Main Commercial Developments of the Business Units of the Group

Domestic

Mobile Consumer

The focus on commercial actions in the first quarter centered on the acquisition of new lines under Mobile Number Portability (MNP) through the launch of a new promotion which allows the customer to choose between the "**Raddoppio Ricariche**" plan and a discount for two years on the subscriber charge of one or more options chosen among those offered in the range of Tutto Compreso Ricaricabile, Tutto Compreso Full and TIM Young. Tutto Compreso Full was launched in March and is the option which completes the plan portfolio, giving prepaid customers an all-inclusive solution with voice, SMS and data (15/euros/month for 100 minutes with everyone, 100 SMS with everyone and 500 MB of internet).
A great deal of attention continues to be placed on the premium segment, thanks to the expansion of the Tutto Compreso range, a **monthly charge/bundle** combined with evolved handsets, with the new entry level plan called Tutto Compreso 250 and new options, under the internet+SMS rationale, "Full" (10 euros/month, 250 SMS and 1GB of internet) and "Full Maxi" (15 euros/month 1000 SMS and 2GB of internet).
The under-30 age group is also being targeted with actions aimed at positioning the brand (focus on reference areas for the young: music, cinema, sports etc.) with concepts directed to the acquisition of lines from other operators (discount on TIM Young MNP for 24 months, lower prices on adding a "friend's" number, "member get member" action for groups of friends of other operators). TIM Young increased its presence on classic media, with investments in the traditional media (TV and radio) in addition to the new media (internet). In the world aimed at the young market, TIM presents itself as an innovative brand thanks also to the launch of new services such as TIM Cloud, the cloud used to save content and share it with friends.
As for the Ethnic target, TIM strengthened its commercial hold by launching the new TIMCard Etniche which is even more competitive for the main ethic groups found in Italy (TIM Card Romania New, TIM Card Albania New and TIM Card Morocco New), together with "TIM Card International New".
The range of rate plans for mobile internet navigation from a PC continues to be backed by TIM's highly competitive **Internet Pack** range, which has been expanded by **Internet Pack ad alta velocità con chiavetta a 42Mega** since December 2011. This Internet Pack is supplied not only with the traditional internet stick but also with the new 3G-WiFi modems.
Strong focus is placed on internet plans for tablets, available for products on TIM's price list and in particular on Apple iPads, with special attention given to **Tutto Tablets** installment formulas.
February saw the launch of the **Tablet Pack 5GB** for high-usage customers, while continuing with the **Tablet Pack 1GB launched in October** 2011, which allows the advance purchase of internet traffic for one year, perfect for the sale of pre-paid tablets. At the end of March, the **Apple iPad3** was launched in TIM stores, with a "White Night" in major cities in Italy.
The range of rate plans for internet navigation from mobile phones maintains its competitiveness and simplicity based on the **TIMx Smartphone senza limiti rate plan** (2.5 euros/week for 250 MB of internet access).
Starting from 2012, the offering of the **Cubomusica Mobile** application, launched in October 2011 to complete the service that began on the fixed line, has been expanded with activation of the service at advantageous prices as a rate option for customers with a TIM smartphone rate plan.

Fixed Line Consumer

In the first quarter of 2012, the Group continued to push its strategy for winbacks, value growth and loyalty of fixed-line residential customers. Efforts continued to promote **Internet Senza Limiti** and **Tutto Senza Limiti** rate plans thanks partly to "loyalty" promotions which include the contribution to home line activation for new Telecom Italia customers who remain active for at least 24 months. Since February, the bundles now include international pricing plans which allow one hour of calls a month to fixed lines anywhere in the world (in zones 1-5 which cover Europe, North America excluding the Caribbean Islands, South America, Africa excluding some central African countries and Asia, excluding the Far East) and one hour of calls to mobile phones worldwide (in the same zones 1-5 above), at domestic mobile prices, positioning the pricing of monthly subscribers respectively at 37.90 euros and 46.90 euros. During the same month, a promotion on the **Chiama TIM** rate plan was introduced which gives 200 minutes of calls free from a fixed line to all TIM cell phones.

Efforts continued to promote the **Super Internet** option, also in the new version with a reduced 1-month promotion, making it possible to satisfy the growing demand for broadband downloads and particularly uploads. This is along with the "**Internet Play**" option, aimed at young people who play online, which reduces the connection ping time by up to 40%, ensuring faster response times and better performance when playing games online.

Telecom Italia has relaunched **Pay TV Cubovision**, with a competitive monthly subscription package with over 25 telematic channels and hundreds of content on demand for only 4.42 euros/month for one year that can be used either on PCs (connecting to the website www.cubovision.it) or TVs of the new-generation Smart Samsung TV, or old generation through the Cubovision decoder. The Cubovision package focuses on the subscriber formula and on the extension of the logic of anycast service, in a domestic environment from a PC or TV or via mobile on a smartphone and tablet through the Mobile Cubovision application.

In keeping with the company's strategies of focusing on ADSL packages by Telecom Italia, and therefore of higher value customers, it was decided to address the communication to high-speed internet users, mainly people between the ages of 14 and 34. The communication style adopted is young-looking and slightly irreverent; the plans are explained through the use of internet (video uploads, watching films, etc.) and even the actor protagonist (Radio Deejay's Nicola Savino) was chosen to appeal to the target of the communication.

Business

In the first quarter of 2012, the convergent plan was enhanced by two innovative offers. **Offerta Linea Valore+** is the first fixed-line "No subscriber charge" plan that offers calls included both to fixed numbers and to TIM mobile numbers. The 30 euros/month subscriber charge plan includes the highly reliable RTG or Base ISDN telephone line, calls to fixed national numbers (unlimited) and to TIM mobile numbers (for a maximum 1000 minutes/month), call transfers in the event of malfunctioning, assistance services within the first business day following the malfunction report, optional traffic bundle to other mobile operator numbers. The Mobile **TIM SuMisura+** network plan can be customized: the 30 euros/month subscriber charge includes a bundle of minutes to everyone, a bundle of data traffic and unlimited traffic to fixed lines. The customer can choose from various plans with a number of minutes included, or select an all-inclusive plan or a usage plan, coupled with a smartphone (optional).

The range of fixed-line broadband plans was revised in February with the introduction of **Super Internet**. For 25 euros/month the plans offers a flat ADSL access change with nominal download speed of 20 Mbps and upload speed of 1 Mbps, minimum guaranteed band of 40 Kbps, 1 static IP address and WiFi router included. For 40 euros/month additional services can be obtained (**Super Internet TuttoCompreso** plan): 5 email addresses, 3 desktop antivirus licenses, 3 fax users, 20 Mb of web space to design a company website.

The mobile phone and data plans also become particularly competitive thanks to the launch of two pairs of options: **Voce e Internet base senza confini** are the options, respectively voice and data, for occasional travelers; **Voce e Internet senza confini** are best for regular travelers who conduct their business from outside the country. Under both options, the first minute of every call received is always free, in any part of the world. **Voce base senza confini** has no subscriber charge and features a repetitive renewal with minutes included. **Voce senza confini** has a subscriber charge of 10 euros/month and offers a discount up to 60% off the base rate. The rates are valid with any foreign operator.

Top Clients & Public Sector

The Top Clients and Public Sector function revised its organization at the beginning of 2012 and based it on two criteria: the customers and the market. The customers have been reclassified according to their potential for ICT expenditure and the reference market was subdivided into four new segments: TOP, STRATEGIC, LARGE and MEDIUM ENTERPRISE, each with its specific Go-to-Market and Caring Model. In sales, the senior account indirect channel became part of the function with responsibility for commercially following the MEDIUM ENTERPRISE segment.
Among the new plans launched during the first quarter of 2012 are the following:
Nuvola It Hyperway is the first end-to-end plan which combines Cloud services with geographic data connectivity, uniting the prestige, reliability and performance of Hyperway connectivity services with the infrastructural services of the "Italian Cloud".
The **Azienda Tutto Compreso** offering is enhanced by the new **TrunkSIP** plan, entry level of VOIP package, which allows the customer to attest the traditional telephone exchange directly on the router supplied by Telecom Italia so that it can take advantage of voice services using broadband access. The new **Bundle-GO WINLOCK** represents a customized package that offers a bundle of minutes, SMS and data, while the **WinBack "Company Top"** package for new mobile customers in the Top/Large/Strategic segments offers usage plans and bundles, either subscription or prepaid, with particularly competitive pricing. The new **Voce Base Senza Confini** plan allows customers who occasionally travel outside the country to call at low prices, without fixed monthly costs.
Nuvola It Decision Maker is a Business Intelligence solution that offers customers the opportunity of improving the decisional processes thanks to the reduction in reaction times, with a view to improving margins.
Nuvola It Mail Protection is the "in the cloud" plan to protect the company mail server from viruses and spam, thanks to a ready-to-use service implemented in the data centers. **Nuvola It Area Protection** is the new perimetral logic security plan.
The **Nuvola It Doctor Home** service allows remote patient management using remote monitoring of the main vital parameters, reducing the need for either hospital stays or outpatient exams.

Brazil

TIM continues to innovate during the first quarter of 2012, focusing on its main distinctive features: simplicity and reasonable prices.

In the **prepaid segment**, TIM has continued to pursue its promotion strategy for the **Infinity** plans through commercial sponsorships during Carnival in the cities of Rio de Janeiro, Recife and Salvador in order to boost brand visibility and expand its community.

In the **post-paid segment**, TIM launched a new plan called **Liberty Passport** which allows subscribers who travel outside the country to use data and voice services at a flat daily price. In particular, the data plan offers unlimited internet navigation while the voice plan allows customers to receive unlimited calls and use 50 minutes of calls with local off-net destination or calls to TIM numbers in Brazil. The plan replaces the traditional usage rate.

In the area of **value-added servcies (VAS)**, TIM has stepped up the **Infinity Web Modem package** (internet access plans using a mobile modem) targeting prepaid customers who use the data service with smartphones, tablets or with mini-modems. The new **Liberty Web + iPad 2** and **Blackberry Illimitado** plans allow customers to use data and voice services at a flat daily price.

TIM has also expanded the area of applications for the smartphone and webphone platforms, especially reinforcing the concept of aggregation and community, launching for example the "Carnevale TIM" application or the interactive English course via SMS.

In the **Business market**, TIM has launched new “combo” plans which allow the “Liberty Empresa” rate plan to be paired with Apple, iPhones, iPad and mini-modem products. The “Liberty Passport” plan was extended also to the customer segment.
For large Corporate Customers, TIM has introduced a new web-based application to manage sales forces in the territory.

With regard to **products,** TIM has strengthened is competitive positioning after the launch of iPad2 last quarter, with the launch of the new Nokia Lumia handsets, available with the Windows OS operating system, and an offer of 75 reais/month x12 for the 710 model and 128 reais/month x12 for the 800 model. Another important launch during the quarter was the new Motorola Razr with the Android operating system, offered at 157 reais/month x12.

Argentina

Fixed-line telephony and broadband services
During the first quarter of 2012, in the residential fixed-line telephony segment, Telecom Argentina concentrated its efforts on meeting customer access demand, seeking to control the fall in the minutes used because of a shift to mobile traffic while maintaining the growth of ARPU. At the local level, voice services featured promotions with the aim of eliminating the set-up charge and a demand for services which include access to broadband. With regard to national and international long-distance services, efforts continued to encourage people to acquire subscriber plans, and improve the customer ARPU.

The leadership of the "Arnet" brand benefited from an effective advertising campaign and a different offer for each segment at competitive prices. With “Arnet Móvil”, “Arnet Turbo” and local traffic minute bundles, this completes the broadband internet service plans for customers.

Mobile telephony services
During the first quarter of 2012 and with the introduction of number portability in March, Personal introduced a complete package that will satisfy the various demands of customers with regard to communication.
Personal continued its strategy as innovation leader by launching plans with VAS content particularly as regards gaming and offering free access to high-definition games. In addition, it has presented new plans relating to the SMS service that introduce the possibility of having the message paid for by the recipient. It has also continued to expand the benefits and the offers associated with its Club Personal loyalty program.
In order to position its brand, Personal sponsored free musical events including the second edition of the Personal Fest.
During the first three months of 2012, Núcleo launched summer promotions (roaming and value-added services) for Club Personal members. Moreover, music, video and applications portals were also launched.
In the first quarter of 2012, Núcleo also reinvented the image of its brand with the new concept “Each person is different” so that it projects a young and happy image based on diversity and flexibility. Finally it organized the Personal Rock Festival for the second year in a row.

Olivetti

During the first quarter of 2012, in response to the evolution of the ICT market and the new opportunities offered by Cloud Computing, Olivetti pursued its repositioning strategy as a Solution Provider by putting together an integrated hardware, software and services package, customized for the client and supported by an extensive assistance network.
In particular, after launching in 2011 a line of OliPad tablets based on Android, complete with applications for the business world, a new tablet was designed, OliPad Graphos, equipped with specific features to enable corporate solutions using mobile devices, with the possibility of writing and signing directly on the device. Commercial endeavors continue in the large customer area, with the aim of employing the OliPad for automation projects in various sectors.

In the banking and insurance sector, Olivetti, with Telecom Italia, after supplying the biometric signature solution for 13,000 branches of the Intesa Sanpaolo group in 2011, concluded a project in the same area with Cariparma, and commenced a number of important projects with other important companies. Also in the banking area, to meet the ever growing need to dematerialize paper at the branches, a process has been started to renew the range of ‘make” products by automatically scanning a broad gamut of documents (from the check book to the check); negotiations have begun with leading banking institutions including Unicredit (a pilot project is underway in a limited number of branches).
During the quarter, Olivetti won the Poste Italiane bid for the biometric signature solution for more than 30,000 branches, surpassing, with this important commission, the threshold of 55,000 branches sold in Italy which, if compared with the approximate 80 thousand of the European market, places Olivetti with its market share as the absolute market leader.
In January 2012, Olivetti launched Nettun@ 3000, a new Olivetti terminal for the cash point, addressed to the Italian fiscal market; this is the second product of the new line of ‘hybrid’ terminals or cash registers equipped with a printer and fiscal module, with touchscreen user interface and an integrated software application. Olivetti launched the same products on the European market in March 2012.

Principal Changes in the Regulatory Framework

Domestic

Fixed Wholesale markets

Wholesale access services

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

For Wholesale Line Rental (WLR), which is offered only from TI telephone exchanges which do not offer unbundled services (Local Loop Unbundling), with Decision 578/10/CONS of November 11, 2010, AGCom set the new price effective for the period May 1, 2010 to December 31, 2012 on the basis of a Network Cap mechanism which replaced the previously applied 'retail minus' approach. In observance of Decision 578/10/CONS, on April 11, 2011 Telecom Italia announced the 2011 pricing for the WLR service, indicating a monthly charge for a POTS line of 12.50 euros per month for residential customers and of 14.87 euros per month for business customers. From 2012, the WLR charge for both residential and business customers was set at 12.88 euros per month.

The price increases for unbundling and other wholesales services for the two years 2011 and 2012 were made conditional, however, on the verification by the Regulator of attainment of certain parameters measuring quality improvement and modernization of the Company's access network.

Following certification by an independent body, the outcome of AGCom's verification was favorable and Telecom Italia was authorized to put the wholesale price changes into effect.

On April 4, 2012, the Italian Parliament approved definitively the Draft Law enacting the "Simplification and Development" Decree, containing (article 47 paragraph 2 quater) the obligation to unbundle accessory services (activation and corrective maintenance) for unbundled lines.

The text of the law establishes that, within 120 days, AGCom must identify the appropriate measures to: (i) assure the unbundled offering of the prices of accessory services (ii) allow requesting operators to purchase the accessory services also from third party suppliers. The European Commission has already transmitted to the Italian Government two letters requesting explanations, indicating possible elements of illegality in the regulation, concerning the compression of the powers and the autonomy of AGCom and the imposition through legislation of atypical obligations outside the procedures established by the European Directives. The aforesaid requests represent, in fact, the preparatory phase for a possible action against Italy for violation.

Wholesale origination, termination and call transit

In April 2011, AGCom published the final regulation for setting the 2011 prices (Decision 229/11/CONS) of wholesale origination, local transit, termination on the Telecom Italia network and termination on the network of another operator (reverse), confirming the same price levels as 2010. Specifically concerning the termination service on the networks of alternative operators, AGCom decided to postpone to 2012 the application of the symmetric termination prices, equal to Telecom Italia's charge at the level of the local telephone exchange SGU (Urban Group Stage), between alternative infrastructured operators and Telecom Italia itself. AGCom has also decided that beginning in 2013 Telecom Italia and other fixed line operators (OLOs) will offer only IP interconnection with a single symmetric rate, resulting from the BU-LRIC (Bottom-Up-Long Range Incremental Cost) model which will be developed in the next few months consistently with the EU Recommendation 2009/396/EC on termination rates.

In December 2011, the TAR of Lazio (Regional Administrative Court) upheld Telecom Italia's appeals against Decision 229/11/CONS and the previous Decision 179/10/CONS to annul the parts which set, respectively, asymmetric termination prices for alternative operators for the second half of 2010 and for 2011. Under the same ruling, the TAR of Lazio rejected the incidental appeal by the alternative operators against the imposition of symmetric termination prices to Telecom Italia's local exchange level (SGU) beginning January 1, 2012. The Regulator and the alternative operators appealed the decision by the TAR of Lazio with the Council of State. The hearing took place on March 30. A decision is expected by the end of June 2012.

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 next generation networks access 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 dispositions of Decision 1/12/CONS, Telecom Italia published the Reference Offer for the year 2012 for wholesale NGAN access services (local installation infrastructures, ducts along access network, primary and secondary fiber optics, terminating segments in fiber optics, End to End access services and bitstream FTTC and FTTH services).

Wholesale mobile markets

International roaming

In April 2012, The Commission, the Parliament and the European Council, reached a final agreement on the text of the 'Roaming III Regulations' which will be formally approved by the end of June 2012.
The Regulations are founded on the application of measures in three principal areas:

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

(euro)	**Roaming II** July 1, 2011	July 1, 2012	July 1, 2013	**Roaming III** 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, from 2014, of a new "structural" measure under which the customer has the possibility of purchasing roaming services from a supplier other than his supplier of national services; the technical mode of implementation of this structural measure will be defined in a later act which the Commission will publish, also on the basis of a technical analysis of the BEREC, not later than January 1, 2013.

AGCom fee

AGCom carried out inspections to verify Telecom Italia's and all the other telecommunications companies' compliance with their obligations to pay the AGCom fee for the years 2006, 2007, 2008, 2009 and 2010. On March 1, 2011, with Decision 99/11/CONS, the Regulator communicated to Telecom Italia the findings of its inspections, asserting that the Company had not paid the correct amount of the fees for AGCom's operating costs for the years in question and listing the additional accounting items which, in its view, should have been included in the chargeable base for the computation of the fee. Telecom Italia therefore received a demand from AGCom for payment of an amount of 26.6 million euros for fees not paid for the five-year period 2006-2010. Telecom Italia challenged this demand before the TAR of Lazio and the court ordered the suspension of the payment demand pending settlement of the case.
On March 3, 2011, Decision 599/10/CONS was published relating to the annual fee for the contribution towards AGCom's operating costs for 2011, in which AGCom raised the quota payable from 1.5‰ to 1.8‰ of 2009 communications sector revenues. On April 30, 2011 Telecom Italia made a conditional payment of an amount of 24.2 million euros, computed on a basis consistent with the Company's submission challenging Decision 99/11/CONS and at the same time challenged Decision 599/10/CONS before the TAR of Lazio with regard both to the increase in the fee percentage and the extension of the accounting items to be included in the chargeable base.
With regard to the two challenges presented by the Company, on April 5, following the outcome of the December 2011 hearing, two rulings were published in which the TAR of Lazio, section II, suspended the two decisions and referred to the European Court of Justice a pre-judicial question concerning the verification of the compatibility of AGCom's national financing system with the principles embodied in the community directives pertaining to the sector.
On March 28, 2012, Decision 650/11/CONS was published relating to the payment of the annual fee for the contribution towards AGCom's 2012 operating costs in which the Regulator raised the quota payable to 2.0‰ of 2010 communications sector revenues. On April 30, 2012, Telecom Italia made a conditional payment of an amount of approximately 23 million euros and is preparing to challenge also this Decision.

Calculation of the net cost of the Universal Service

With Decision 153/11/CIR of December 12, 2011 AGCom concluded the process of valuing the net cost of the Universal Service for 2004. In particular, the Regulator approved the application of the allocation mechanism and determined the net cost for 2004 in the aggregate amount of 25.9 million euros.
The contribution quota due by the other operators (Vodafone, Wind, Fastweb, Teletu and BT Italia) amounts to 8.7 million euros.
Decision 153/11/CIR also authorized the initiation of work on the verification of the net cost of the Universal Service for the year 2005 requiring Telecom Italia to submit by January 25, 2012 the new valuation of the net cost of the Universal Service in accordance with the "methodological correctives" introduced by the aforesaid Decision. Concerning the valuation of the net cost for 2006, AGCom has initiated the process with its March 30, 2012 communication requesting Telecom Italia to re-submit by the end of June 2012 its estimates of 2006 net costs determined in accordance with the new regulatory and methodological framework.

Media

Digital frequencies and switch off

Following European Community infringement procedure 2005/5086, which contested the process for the conversion from analogical to digital television envisaged in the Gasparri Law, the following were introduced: (i) article 8 novies of Legislative Decree 59/2008 converted into Law 101/2008, which modified article 15 paragraph 1 of Legislative Decree 177/2005 and (ii) Decision 181/09/CONS. In particular, Law 101/2008 provided for the subjection of the activities of the terrestrial digital technology network operator to a regime of general authorization, pursuant to the provisions contained in the Code for Electronic Communications. Decision 181/09/CONS, which the 2008 Community Law transposed into a primary regulation, established the criteria for the complete digitalization of national terrestrial television. Under Decision 181/09/CONS the plan for the assignment of digital frequencies provided for 21 national networks with coverage of the national territory of approximately 80% for the transmission of Digital Terrestrial TV (DVB-T) and a further 4 national networks for digital terrestrial radio/TV transmissions on mobile terminals (DVB-H). The Decision established a national digital dividend to be assigned by means of a beauty contest based on objective, proportionate, transparent and non-discriminatory criteria, respecting the rights established under Community laws and allocating a part to new entrants and small operators, the other being open to any offer.

After acceptance in December 2011 of three parliamentary demands, which commit the Government to suspend the procedure for the assignment of TV frequencies by beauty contest and to identify a frequencies assignment procedure in the general collective interest in financial terms and in terms of the strengthening of pluralism in the information and television sector, on January 20, 2012, TIMB received an official communication from the Ministry of Economic Development by which the beauty contest was suspended for 90 days and, at the same time, TIMB was granted 60 days in which to submit any other relevant observations.

On February 1, TIMB replied and asked that a round table be set up to make good the damages suffered by the Group in the conversion process of the networks from analog to digital and to settle the dispute as a whole. On March 20, TIMB submitted further legal observations on the suspension of the procedure.

On April 24, 2012, the Senate approved definitively the law enacting Decree 16/2012 relating to fiscal simplification. The Government therein annulled the beauty contest and arranged for the assignment of the internal digital dividend by means of a public auction process which the Ministry of Economic Development is to hold within 120 days of the entry into effect of the Law, applying criteria established by the Authority, respecting the maximum limits set in Decision 181/09/CONS.

Participants in the beauty contest will be compensated for the costs sustained for the contest.

With regard to the safeguarding of the Group's interests in the matter of digital frequencies, the various contestations which the Group has already engaged with the Ministry and with AGCom over the failure to assign frequencies for the construction of the fourth network in the course of the Ministry of Economic Development's implementation of AGCom Decision 181/09/CONS, remain in place.

Principal appeals regarding digital frequencies

- With the implementation of the criteria for the digitalization of the television networks pursuant to Decision 181/09/CONS, contrary to the experience in Sardinia, the Telecom Italia Media Group was assigned frequency resources for the construction of only three digital multiplexes, with the consequent inability to convert the totality of the analog and digital networks which it operates.

  In the presence of the Ministry's failure to accept the request for annulment on grounds of self-defense, by appeal before the TAR of Lazio (such appeal was made initially to the President of the Republic and only later, after the transposition of the Rete A television station/Gruppo Editoriale L'Espresso, Telecom Italia Media applied to the TAR), the Group challenged the ministerial assignments of digital frequencies made in violation of the principle – embodied in the regulations governing the sector and confirmed in Decision 181/09/CONS – that each operator has the right to convert into digital each of the analog and digital networks which it legitimately operates (the so-called one for one criterion) requesting,

(a) as a matter of priority:
  - annulment of the ministerial assignations of only three frequencies (Channel 47 UHF, Channel 48 UHF, Channel 60 UHF) which are of a quality which is inferior to that of the frequencies assigned to RAI and Mediaset;
  - recognition of the right of Telecom Italia Media Broadcasting to be assigned four frequencies for the conversion of the networks operated by the Group (La7, MTV, TIMB1, MBONE), having a coverage of at least 80% of the territory and of all provincial capitals;

(b) secondarily:
  - condemnation to payment of the damages (by reference to the market value of a multiplex of at least 240,000,000 euros) arising from the impossibility for the Group to convert to digital each of the analogical and digital networks which it operates.

  In the same action, with additional grounds, the following matters were also contested: (i) the National Plan for the Assignment of Digital Frequencies (Decision 300/10/CONS), (ii) the Regulations for the beauty contest (Decision 497/10/CONS), (iii) all the subsequent Decisions of the frequency assignment plan for all territories and regions, (iv) the ministerial assignments for the digital areas 'all digital' 2009, 2010 and 2011, (v) the assignment of Channel 60 UHF since, due to LTE-800 interference, that frequency does not assure the same level of quality as that of the frequencies assigned to the other national operators.

- With the appeal filed on August 8, 2011, TI Media challenged the bid and bid rules relating to the beauty contest intimating the illegality of:
  - barring Telecom Italia Media from bidding for Lot A as if it were on the same footing as RAI and Mediaset;
  - considering SKY as a new entry operator and, in contrast, subjecting Telecom Italia Media to the same restrictive measures as RAI and Mediaset, which are incumbents;
  - the economic and technological restriction on Lot C.1, which for five years can be used only in DVB-H (outside the market) or in DVB-T2 (without any commercial attraction since the penetration of this technology in the market is presently inexistent and is not planned for at least five years from switch off);
  - the assignment criteria for the points which tend to favor operators which have a dominant position (RAI and Mediaset);
  - the absence of fixing asymmetrical measures regarding RAI (an enterprise in public ownership), whose participation in the bid changes the competitive situation.
- On November 8, 2011 Telecom Italia Media Broadcasting filed an appeal for the annulment, subject to precautionary measures, of the admission of RAI to the beauty contest, challenging various elements which violate the bid rules including: i) reaching the maximum number of DVB-T networks which an operator may run by reference to the limit of 5 DVB-T networks set by the European Commission ii) failure to comply with various requirements of the bid process such as the obligatory corporate separation of publisher from operator of a digital terrestrial network. On January 11, 2012, in a closed session of the court, the date was set for the merit hearing for June 6, 2012.

All the appeals relating to the beauty contest could still be of interest to the Group even if the TAR could declare them not to be actionable.

Auditel

At the meeting of the board of directors of Auditel on November 28, 2011, Telecom Italia Media raised the following matters:

- the question of the underestimation of La7 audience size and of the consequent economic loss arising from inability to fully realize the corresponding potential in the market for advertising revenue;
- the failure to upgrade the company's corporate governance, a matter raised by the Communications Authority itself, so as to make Auditel effectively independent with respect to its two majority shareholders RAI and Mediaset.

If responses to these matters are not forthcoming within a reasonable time, Telecom Italia Media will be compelled to take whatever steps are necessary to safeguard its interests.

Following SKY's formal complaint, the Antitrust Authority fined Auditel for abuse of its dominant position. According to the Antitrust Authority, Auditel's seriously abusive actions were the following:

- it impeded without justification the release of daily figures by channel and platform (in spite of the fact that the technical problems with this metric were resolved in June 2009);
- until January 2010 it impeded the release of daily figures for "Other Digital Terrestrials" on the grounds of opposition from one of the main shareholders, Mediaset, which only in January 2010 withdrew its reservations leading to the release of the data (there were no technical/statistical obstacles and the context and benefit to the major Auditel shareholders must be considered);
- it erroneously attributed the measured audience data to the population not in possession of a TV receiver.

With regard to foreigners, however, the Antitrust Authority concluded that the delay was not caused by Auditel but arose from problems such as privacy restrictions on access to personal data records.
The violations are considered serious and without mitigating circumstances and are quantified in 1,806,604 euros, taking as reference Auditel's sales revenues in 2009 (17.3 million euros) and in 2010 (17.2 million euros) and establishing a fine for each abusive action.
Auditel has appealed against these fines to the TAR of Lazio.

Litigation and Pending Legal Action

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at March 31, 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 at least probable.

As regards the following pending arbitration cases and legal disputes no significant events have occurred compared to that already disclosed in the 2011 Annual Report:

- **Telecom Italia Sparkle – Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Public Prosecutor's Office of Rome**
- **National tax disputes**
- **International tax and regulatory disputes**
- **Investigation by the Public Prosecutor's Office of Monza**
- **Application for indictment of Telecom Italia S.p.A. for an administrative offence pursuant to Legislative Decree no. 231/2001.**

It should be noted that for some disputes, described below, on the basis of the information available at the closing date of the financial statements 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 any payments. Moreover, in the case in which the diffusion 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.

In addition, as regards the following pending arbitration cases and legal disputes no significant events have occurred compared to that already disclosed in the 2011 Annual Report:

- **Antitrust Case A426**
- **Antitrust Case A428**
- **Dispute relative to "Adjustments on concession charges" for the years 1994-1998**
- **FASTWEB**
- **VODAFONE**
- **H3G**
- **Federazione Anti Pirateria Audiovisiva (FAPAV)**
- **WIND**
- **EUTELIA and VOICEPLUS**
- **TELEUNIT**
- **POSTE**
- **Gruppo Elitel Telecom S.p.A.**
- **Dispute concerning the concession charge for 1998**

Greece - DELAN
During 2009, the company Carothers Ltd., acting as successor of Delan Cellular Services SA ("Delan"), started judicial proceedings for the compensation of damages, both precautionary and on the merits, against Wind Hellas (the new corporate name of TIM Hellas, the Greek subsidiary sold by the Telecom Italia Group in 2005) 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 Greek subsidiary. The hearing for the pleading of both the case started by Carothers Ltd. against Wind Hellas and the case started by Wind Hellas against Telecom Italia International on the basis of the alleged indemnity obligations contained in the aforementioned stock purchase agreement was held on June 1, 2011. After this hearing , deciding in first instance on the merits, in April 2012 the Judge determined that the court lacked jurisdiction on Telecom Italia International (whose contractual

indemnification obligation falls under the law of New York and is subject to arbitration), while ordered Wind Hellas to pay damages to Carothers for an overall amount of approximately 85 million euros including costs and interests accrued).

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 are kept in escrow to cover certain potential future liabilities. In such framework Telefónica has withdrawn the aforementioned request for arbitration. Thereafter, the arbitration panel ordered the closing of the proceeding.

Mobile Telephony: investigations

Regarding the matter of the prepaid SIM cards activated in the 2005-2008 period and not correctly associated with a customer identity card, the remaining cards still to be regularised totalled 126 thousand at 31 March 2012, a reduction of 49% since the start of the year (248 thousand; when regularisation activities commenced, approximately 5.5 million SIM cards had not been correctly associated with an identity document). The process to regularise the remaining cards started at the end of March 2012, with the aim of regularising them by 30 June 2012, or terminating any SIM cards that were found to be still not correctly associated with a customer identity document on that date.

On 21 March 2021 Telecom Italia was served notice of the conclusion of the preliminary enquiries pursuant to art. 415 bis of the code of criminal procedure from which it emerged that the Company is subject to investigation by the Milan Public Prosecutor pursuant to Legislative Decree 231/2001 for the offences of receiving stolen goods (art. 648 of the penal code) and fraud (art. 491 bis of the penal code) committed, according to the charge, by fourteen employees of the so-called "canale etnico" of Telecom Italia, jointly with several dealers (to a total of 99 individuals subject to investigation), in order to obtain unwarranted commission payments from Telecom Italia.

The Company, as injured party damaged by such conduct, had brought two actions in 2008 and 2009, and had suspended the employees involved in the criminal proceedings.

On 20 April 2012 the Milan Public Prosecutor served a further notice of the conclusion of the preliminary inquiries pursuant to article 415 bis of the code of criminal procedure, from which it emerged that an ex-director, an ex-senior manager and a current manager are subject to investigation for the offence of hindering the execution of the functions of the public supervisory authorities (art. 2638 of the civil code). The charge refers both to the irregular postponement - in 2006/2008 – of the natural expiry date of approximately 5.3 million prepaid SIM cards (a phenomenon reported in the Greenfield Project by Deloitte Financial Advisory Services) and to the phenomenon of the activation – in 2005/2008 - of approximately 1 million SIM cards not topped up in the 12 months following their activation. Telecom Italia is also under investigation for the same charge, pursuant to Legislative Decree 231/2001.

The examination of the bulky dossier of the investigations is currently starting, on completion of which the Company will be able to give its initial assessment of the disputed facts, and take all legal actions to protect itself.

TELETU

In 2012 Telecom Italia commenced proceedings in the Rome Court against the telecommunication operator Teletu. Telecom Italia is claiming damages of approximately 93 million euros arising from the alleged unlawful refusal by Teletu to have Teletu clients reactivate accounts with Telecom Italia.

Corporate Boards at March 31, 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 who will remain in office for three years until the approval of the financial statements for the year ended December 31, 2013.
On April 13, 2011, the board of directors appointed Franco Bernabè Executive Chairman, Aldo Minucci Deputy Chairman and Marco Patuano Managing Director and Chief Operating Officer.
On August 4, 2011, the board of directors coopted the director Lucia Calvosa to replace the director Ferdinando Falco Beccalli, who resigned on June 6, 2011.
On December 1, 2011, the board of directors coopted the director Massimo Egidi to replace the director Francesco Profumo, who resigned on November 16, 2011.
At March 31, 2012, the board of directors of the Company is therefore composed of 15 members, as follows:

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

The nomination of both coopted directors (Lucia Calvosa and Massimo Egidi) was proposed to the shareholders' meeting convened for May 15, 2012, with the expiry of the term of office aligned with that of the other board members (approval of the financial statements for the year ended December 31, 2013).

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, the composition of which is reported as of March 31, 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 the members of the board of directors can be consulted on the Company's website at the following address: 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 taken note of 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 board of statutory auditors of Telecom Italia was elected by the shareholders' meeting held on April 8, 2009 and will remain in office until the approval of the 2011 annual financial statements (the shareholders' meeting is convened for May 15, 2012).
The board of statutory auditors is composed as follows at March 31, 2012:

Chairman	Enrico Maria Bignami
Acting Auditors	Gianluca Ponzellini
	Lorenzo Pozza
	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Silvano Corbella
	Maurizio Lauri
	Vittorio Mariani
	Ugo Rock

In view of the renewal of the board of statutory auditors for the years 2012-2014, the following slates of candidates were filed on April 20, 2012:

List presented by the shareholder Telco S.p.A. (investment of approximately 22.39% of Telecom Italia ordinary share capital)

- **Candidates for the position of acting auditor:**
  1. Gianluca Ponzellini
  2. Salvatore Spiniello
  3. Ferdinando Superti Furga
  4. Lelio Fornabaio
  5. Mario Ragusa
- **Candidates for the position of alternate auditor:**
  1. Ugo Rock
  2. Vittorio Mariani
  3. Luigi Merola
  4. Luca Novarese

List presented by the shareholder Findim Group S.A. (investment of approximately 4.99% of Telecom Italia ordinary share capital)

- **Candidates for the position of acting auditor:**
  1. Lorenzo Pozza
- **Candidates for the position of alternate auditor:**
  1. Massimiliano Carlo Nova

List presented by a group of investment management companies and institutional investors (overall investment of approximately 1.57% of Telecom Italia ordinary share capital)

- **Candidates for the position of acting auditor:**
  1. Enrico Maria Bignami
  2. Sabrina Bruno
- **Candidates for the position of alternate auditor:**
  1. Roberto Capone
  2. Franco Patti

The curricula vitae of the members of the board of statutory auditors in office and the candidates, in view of the renewal of the board, can be consulted on the Company's website at the following address: www.telecomitalia.com

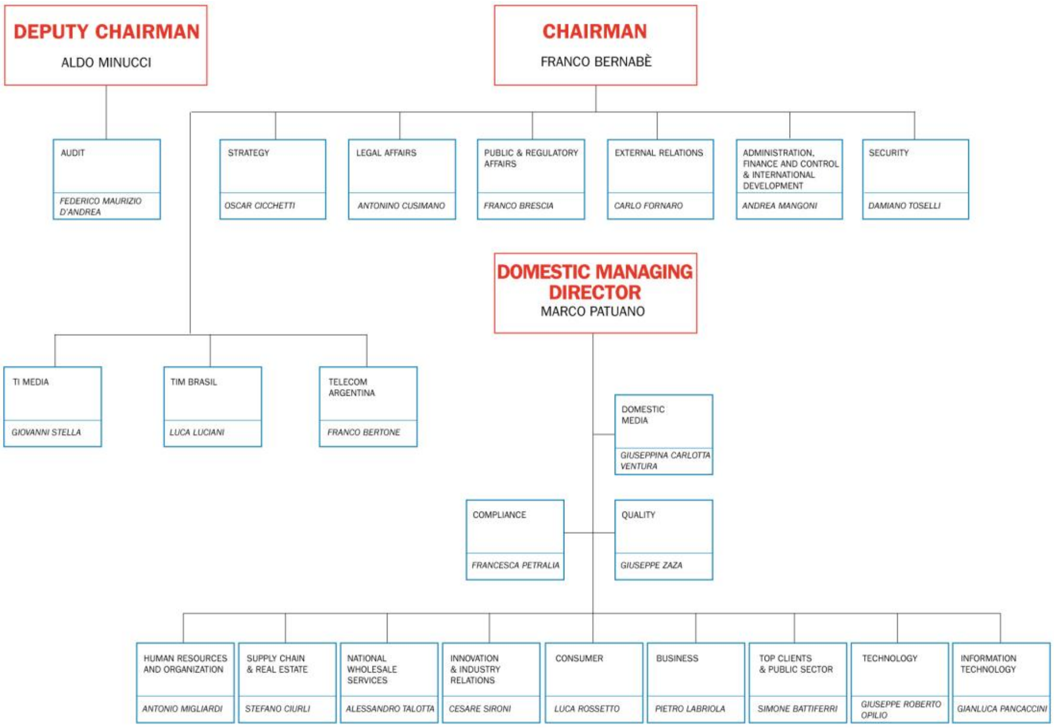
Independent Auditors

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

Andrea Mangoni (Head of the Group Administration, Finance and Control & International Development Function) is the manager responsible for preparing Telecom Italia's financial reports.

Macro-Organization Chart – Telecom Italia Group at March 31, 2012



(*) On May 4, 2012, Luca Luciani tendered his resignation from the positions held in the Group.

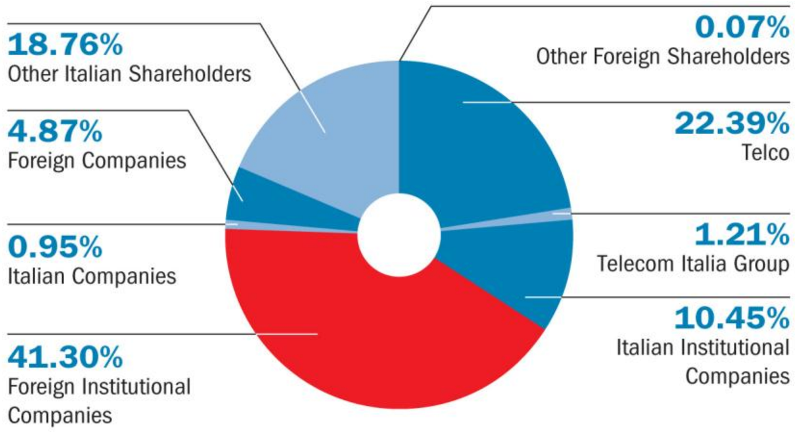
Information for Investors

Telecom Italia S.p.A. share capital at March 31, 2012

Share capital	euros 10,693,628,019.25
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 March 2012 average prices)	16,173 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders at March 31, 2012 according to the Shareholders Book, 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 March 31, 2012, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 of February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are:

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 March 31, 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 March 31, 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 26, 2009, the Milan Court appointed 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 2009-2011).
- 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).

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

Relative performance from 1/1/2012 – 3/31/2012

Telecom Italia S.p.A. vs. FTSE - Italia All Share and DJ Stoxx TLC Index

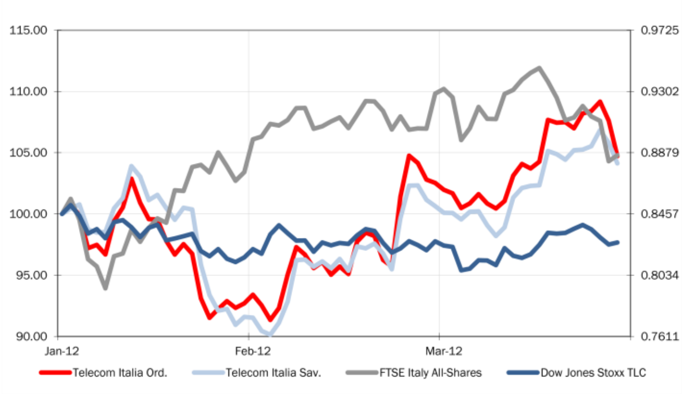


Chart based on Telecom Italia ord. share price of EUR 0.8457 at 1/2/2012 - Stock market prices. Source: Reuters.

Telecom Italia Media S.p.A. vs. FTSE - Italia All Share and DJ Stoxx Media Index

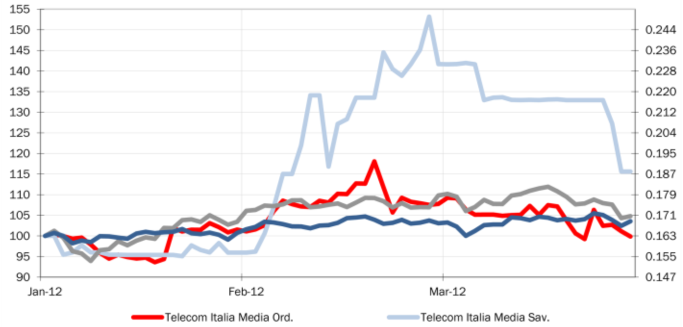


Chart based on Telecom Italia Media ord. share price of EUR 0.1628 at 1/2/2012 - Stock market prices. Source: Reuters.

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

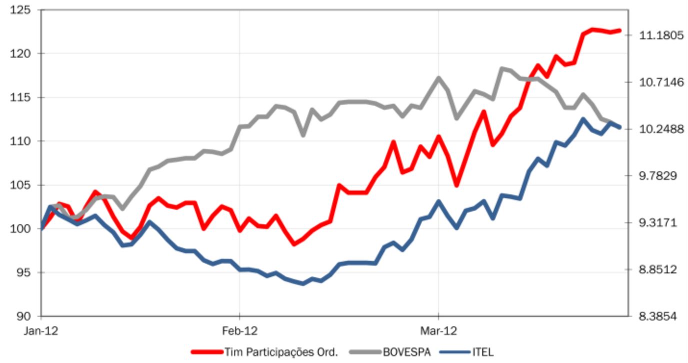


Chart based on Tim Participações ord. share price BRL 9.3171 at 1/2/2012 - Stock market prices. Source: Reuters.

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

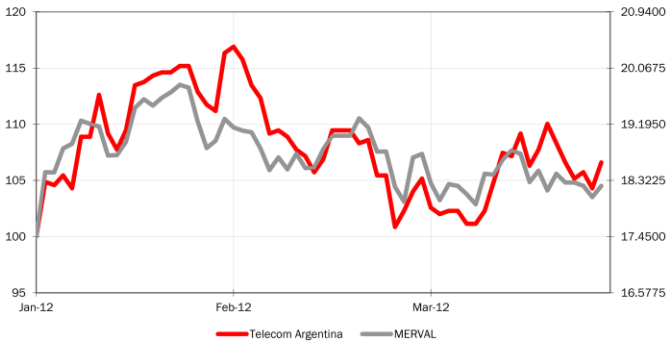


Chart based on Telecom Argentina Class B price ARS 17.45 at 1/2/2012 - Stock market prices. Source: Reuters.

Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares and Telecom Argentina S.A. Class B ordinary shares 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.

Rating at March 31, 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 quarter of 2012, 18,740 Telecom Italia Media savings shares were purchased at an average price per share including the brokerage commission equal to 0.2036 euros for a total of 3,816 euros.
Up to the date of April 20, 2012, 24,715 Telecom Italia Media savings shares were purchased at an average price per share including the brokerage commission equal to 0.20177 euros for a total of 4,987 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.
No significant transactions were entered into as defined by art. 4, paragraph 1, letter a) of Consob Regulation 17221 of March 12, 2010 concerning "related party transactions" or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group in the first three months of 2012.
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 for the first three months of 2012.
Transactions with related parties, when not dictated by specific laws, are usually conducted at arm's length. Furthermore, the transactions are subject to an internal procedure which defines procedures and timing for verification and monitoring (adopted by resolution of the Board of Directors on November 4, 2010, pursuant to the Regulation adopted by Consob with Resolution 17221/2010, which can be consulted on the Company's website at the following address: www.telecomitalia.com, section Governance, channel Governance System).

INTERIM SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 1st QUARTER 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**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Revenues	**7,392**	12		254			**266**		**266**	3.6
Acquisition of goods and services	**3,231**	3	6	171			**180**		**180**	5.6
Employee benefits expenses	**998**			1	23	5	**29**		**29**	2.9
Finance income	**803**			11			**11**		**11**	1.4
Finance expenses	**1,242**	5		13			**18**		**18**	1.4

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

INTERIM SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 1st QUARTER 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**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Revenues	**7,073**	18	1	239			**258**		**258**	3.6
Acquisition of goods and services	**2,995**	9	11	159			**179**		**179**	6.0
Employee benefits expenses	**990**			1	24	3	**28**		**28**	2.8
Finance income	**952**			14			**14**		**14**	1.5
Finance expenses	**1,422**	6		39			**45**		**45**	3.2

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 3/31/2012

(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**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% incidence on financial statement line item
Net financial debt										
Non-current financial assets	**(2,416)**	(1)		(219)			**(220)**		**(220)**	9.1
Securities other than investments (current assets)	**(674)**			(4)			**(4)**		**(4)**	0.6
Financial receivables and other current financial assets	**(497)**			(15)			**(15)**		**(15)**	3.0
Cash and cash equivalents	**(5,492)**			(117)			**(117)**		**(117)**	2.1
Current financial assets	**(6,663)**			(136)			**(136)**		**(136)**	2.0
Non-current financial liabilities	**34,097**	144		375			**519**		**519**	1.5
Current financial liabilities	**5,961**	127		86			**213**		**213**	3.6
Total net financial debt	**30,979**	**270**		**106**			**376**		**376**	**1.2**
Other statement of financial position line items										
Trade and miscellaneous receivables and other current assets	**8,056**	25	1	267			**293**		**293**	3.6
Miscellaneous payables and other non-current liabilities	**1,177**			3			**3**		**3**	0.3
Trade and miscellaneous payables and other current liabilities	**9,978**	13	17	153	26		**209**		**209**	2.1

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 12/31/2011

(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**	Transactions of 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)	**(1,07)**			(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 statement of financial position line 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.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 1st QUARTER 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**	Transactions of 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	**954**		26	1			**27**		**27**	2.8

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 1st QUARTER 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**	Transactions of 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	**901**	1	35				**36**		**36**	4.0

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

Remuneration to key managers

In the first quarter 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 4.5 million euros (3.3 million euros in the first quarter of 2011), analyzed as follows:

(millions of euros)	**1st Quarter 2012**	**1st Quarter 2011**
Short-term remuneration	3.8	2.9
Long-term remuneration	0.4	0.1
Share-based payments (*)	0.3	0.3
	4.5	**3.3**

(*) These refer to the fair value of the rights, vested to March 31, under the share-based incentive plans of Telecom Italia S.p.A .and its subsidiaries (PSG, TOP 2008 and LTI 2011).

In the first quarter 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 105,000 euros (91,000 euros in the first quarter of 2011).

In the first quarter 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.
Managers:	
Simone Battiferri	Head of Top Clients and Public Sector (1)
Franco Bertone	Dirección General Ejecutiva (CEO) 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	Director Chairman of Tim Brasil (2)
Andrea Mangoni	Head of Administration, Finance and Control & International Development
Antonio Migliardi	Head of Human Resources and Organization
Giuseppe Roberto Opilio	Head of Technology
Luca Rossetto	Head of Consumer
Alessandro Talotta	Head of National Wholesale Services

(1) From February 23, 2012.
(2) On May 4, 2012, Luca Luciani tendered his resignation from the positions held.

Significant Non-recurring Events and Transactions

Information is presented on the impact of non-recurring events and transactions on the results of the Telecom Italia Group.

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

(millions of euros)	1st Quarter 2012	1st Quarter 2011
Impact on EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	-	-
Impact on EBIT – Operating profit	-	-
Financial income (expenses) and Other income (expenses) from investments:		
Net gains on disposal of EtecSA (Cuba)	-	17
Impact on profit before tax from continuing operations	**-**	**17**
Income taxes on non-recurring items		-
Impact on profit for the period	**-**	**17**

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 quarter of 2012 the Telecom Italia Group has not put into place any atypical and/or unusual operations, as defined by that Communication.

Alternative Performance Measures

In this Interim Report at March 31, 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 three 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 two tables 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 March 31, 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

Andrea Mangoni