



---

*C A P I T A L*

**Telecom Italia Capital**  
**Société Anonyme**  
12, rue Eugène Ruppert  
L-2453 Luxembourg

R.C.S. Luxembourg B 77.970

Audited Annual Accounts  
as at December 31, 2012

---

## **Table of Contents**

---

Table of Contents	2
Directors' report	3
Annual Accounts	5
Balance Sheet	6
Profit and Loss	7
Cash Flow Statements	8
Notes to the accounts	9
Declaration of the manager responsible for financial reporting	26
Audit Report	27

## **Directors' report**

---

Dear Shareholder,

The year 2012 of your Company ends with a profit of EUR 3.293.485,93 (loss of EUR 1.333.462,56 in 2011) after having booked tax charges for EUR 1.284.557,46 (EUR 403.100,33 in 2011).

During the year 2012, your Company continued its activity of providing financial assistance to Telecom Italia Group Companies. The ongoing lending and borrowing activity generated a positive margin equal to EUR 4,4 million (EUR 4,3 in 2011).

The net financial position as per December 31, 2012 is positive for EUR 32,2 million (EUR 28,2 million as per December 31, 2011).

### **Notes**

The aggregate principal amount of the outstanding notes equals to USD 11.650.000.000,00 (USD 11.650.000.000,00 as of December 31, 2011). The revenues of the aforesaid notes have been utilized to provide funding to Telecom Italia Group Companies. All the notes are unconditionally and irrevocably guaranteed by the mother company Telecom Italia S.p.A.

As far as the interest and currency exchange risk are concerned, all the outstanding notes have been covered by means of hedging contracts.

### **Share Capital**

As of December 31, 2012 the subscribed share capital of Ti Capital is EUR 2.336.000,00, consisting of 100.000 ordinary shares with a nominal value of EUR 23,36 per share.

### **Risks**

The Directors consider the following as the principal risks that the Company faces:

- the Company has raised, and may raise in the future, financing in currencies other than euro. According to its risk management policies, Telecom Italia Capital hedges the foreign currency risk exposure on its liabilities through currency swaps contracts or natural hedge positions. Furthermore, in order to hedge its interest rate exposure, Telecom Italia Capital enters into interest rate swaps.

These financial risks are managed by:

- the application of guidelines defined at Group level, which preview a monitoring by a Group committee of the level of exposure to market risk consistency with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

Additional details on financial risk management policies of Telecom Italia Group are available in the Telecom Italia consolidated annual accounts.

### **Events subsequent to December 31, 2012**

On February 2013, Telecom Italia Capital sustained costs for EUR 8,3 million in relation with the novation of a number of derivative agreements.

No other event after the closing of the accounts has a material impact on the financials herein reported.

During the year 2013 it is foreseen to continue the activity of financial assistance to Telecom Italia Group Companies and continue to manage the market risks above mentioned. On November 15, 2013 will mature and shall be repaid USD 2.000.000.000,00 of notes issued on October 2003.

The Company doesn't perform research and development activities. The Company did not acquire and doesn't hold its own shares.

Financials as of December 31, 2012 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

The Board invites to approve the aforesaid financial statements and propose to:

- a) allocate the profit of the year 2012 to "Profit and loss brought forward";
- b) to reallocate EUR 169.625,00 from "Other reserves" to "Profit and loss brought forward", considering that the five years unavailability period for tax purposes has expired.

For the Board of Directors  
The Managing Director  
Adriano Trapletti

(Page intentionally left blank)

## Balance Sheet

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME BALANCE SHEET AS AT DECEMBER 31, 2012							
ASSETS - [EUR]		31.DECEMBER.2012	31.DECEMBER.2011	LIABILITIES - [EUR]		31.DECEMBER.2012	31.DECEMBER.2011
<b>B. Formation expenses</b>	[3]	26.331.978,09	30.305.101,09	<b>A. Capital and reserves</b>		<b>30.056.048,89</b>	<b>26.762.562,96</b>
<b>C. Fixed assets</b>		<b>7.690.880.170,37</b>	<b>8.793.691.129,80</b>	I. Subscribed capital	[8]	2.336.000,00	2.336.000,00
III. Financial assets				II. Share premium and similar premiums	[9]	11.810.696,39	11.810.696,39
2. Loans to affiliated undertakings	[4]	7.690.880.170,37	8.793.691.129,80	IV. Reserves	[10]		
<b>D. Current assets</b>		<b>1.505.205.096,43</b>	<b>525.120.281,51</b>	1. Legal reserve		234.000,00	234.000,00
II. Debtors				4. Other reserves		1.541.475,00	835.575,00
2. Amounts owed by affiliated undertakings	[5]			V. Profit or loss brought forward		10.840.391,57	12.879.754,13
a) becoming due and payable after less than one year		1.189.155.028,31	155.281.641,13	VI. Result for the financial period		3.293.485,93	-1.333.462,56
b) becoming due and payable after more than one year		310.940.314,16	284.909.514,09	<b>C. Provisions</b>		<b>1.744.159,77</b>	<b>1.399.295,82</b>
4. Other debtors	[6]			2. Provisions for taxation	[11]	1.744.159,77	1.399.295,82
a) becoming due and payable after less than one year		8.239,80	3.673.074,99	<b>D. Not Subordinated debts</b>		<b>9.193.067.840,55</b>	<b>9.323.913.560,31</b>
b) becoming due and payable after more than one year		0,00	79.089.653,96	1. Debenture loans			
IV. Cash at bank and in hand	[7]	5.101.514,16	2.166.397,34	b) Non convertible notes	[12]		
<b>E. Prepayments</b>		<b>2.450.804,32</b>	<b>2.958.906,69</b>	i) becoming due and payable after less than one year		1.604.364.878,26	90.218.238,27
				ii) becoming due and payable after more than one year		7.302.288.799,86	8.990.055.829,72
				2. Amounts owed to credit institutions	[13]		
				a) becoming due and payable after less than one year		0,00	4.162.994,73
				b) becoming due and payable after more than one year		0,00	32.004.254,70
				4. Trade creditors			
				a) becoming due and payable after less than one year		608.638,63	605.965,63
				6. Amounts owed to affiliated undertakings	[14]		
				a) becoming due and payable after less than one year		34.238.463,34	78.099.338,54
				b) becoming due and payable after more than one year		251.561.479,23	126.728.392,24
				8. Tax and social security			
				b) Social security		5.441,35	4.905,80
				9. Other creditors	[15]		
				a) becoming due and payable after less than one year		139,88	2.033.640,68
<b>TOTAL ASSETS</b>		<b>9.224.868.049,21</b>	<b>9.352.075.419,09</b>	<b>TOTAL LIABILITIES</b>		<b>9.224.868.049,21</b>	<b>9.352.075.419,09</b>

The accompanying notes are an integral part of these annual accounts.

## Profit and Loss

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME					
PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2012					
A. CHARGES - [EUR]	31.DECEMBER.2012	31.DECEMBER.2011	B. INCOME - [EUR]	31.DECEMBER.2012	31.DECEMBER.2011
1. Raw materials and consumables	165,60	135,19			
2. Other external charges	678.104,71	631.752,50	6. Income from financial fixed assets	[17] 299.354.970,51	321.833.649,76
3. Staff costs	225.421,56	217.122,08	a) derived from affiliated undertakings	299.354.970,51	321.833.649,76
a) Wages and salaries	197.435,96	189.844,68			
b) Social security costs	23.275,08	25.402,07	8. Other interest and other financial income	[18] 1.060.978.772,47	666.583.347,52
c) Social security costs relating to pensions	4.710,52	1.875,33	a) derived from affiliated undertakings	873.720.244,05	629.149.891,09
4. Value adjustments	3.635.826,93	3.906.842,19	b) other interest receivable and similar income	187.258.528,42	37.433.456,43
a) on formation expenses and on tangible and intangible fixed assets	3.635.826,93	3.906.842,19			
5. Other operating charges	108.751,50	115.696,05	9. Extraordinary income	0,00	6.079.500,17
8. Interest payable and similar charges	[16] 1.351.107.429,29	990.636.811,67			
a) concerning affiliated undertakings	724.843.945,99	411.253.989,02	12. Loss for the financial year	0,00	1.333.462,56
b) other interest payable and similar charges	626.263.483,30	579.382.822,65			
10. Tax on profit or loss	1.284.557,46	403.100,33	TOTAL INCOME	1.360.333.742,98	995.829.960,01
11. Other taxes not included in the previous caption	0,00	-81.500,00			
12. Profit for the financial year	3.293.485,93	0,00			
TOTAL CHARGES	1.360.333.742,98	995.829.960,01			

The accompanying notes are an integral part of these annual accounts.

## Cash Flow Statements

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME CASH FLOW STATEMENT AS AT 31 DECEMBER 12		
	31.DECEMBER.2012	31.DECEMBER.2011
<b>Operating Activities</b>		
Profit/Loss before tax	4.578.043,39	-930.362,23
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	3.635.826,93	3.906.842,19
Finance Income	-1.360.333.742,98	-988.416.997,28
Finance Expenses	1.348.856.406,10	988.274.217,02
Changes in trade and other receivables	508.102,37	25.127.661,11
Changes in trade and other payables	-1.048.050,37	-316.941,50
<b>Net cash flows from operating activities</b>	<b>-3.803.414,56</b>	<b>27.644.419,31</b>
<b>Cash flows from Investing activities</b>		
Investments and re-payments in Financial Receivables	3.998.833,82	1.539.934.155,97
Interest, commissions and other financial income received	1.373.373.579,86	1.006.521.138,43
<b>Net cash flows from investing activities</b>	<b>1.377.372.413,68</b>	<b>2.546.455.294,40</b>
<b>Cash flows from Financing activities</b>		
Net change in short-term financial payables	-6.600.000,00	6.600.000,00
Repayments of borrowings	-4.005.863,09	-1.602.437.081,20
Interest, commissions and other financial expenses paid	-1.360.326.250,89	-1.003.985.512,23
<b>Net cash flows from financing activities</b>	<b>-1.370.932.113,98</b>	<b>-2.599.822.593,43</b>
Net Increase / Decrease in Cash and Cash Equivalents	2.636.885,14	-25.722.879,72
Net foreign exchange differences in C&CE	299.341,94	108.355,00
Cash and cash equivalents at 01 January	2.165.152,34	27.779.677,06
<b>Cash and cash equivalents at the end of the period</b>	<b>5.101.379,42</b>	<b>2.165.152,34</b>

The accompanying notes are an integral part of these annual accounts.



## **Notes to the accounts**

---

as at December 31, 2012

### **Note 1 – General**

Telecom Italia Capital (the “Company”) was incorporated in Luxembourg on September 27, 2000 for an unlimited duration. The registered office is currently established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 77.970.

The corporate object is to provide financial assistance to all the Group Companies within Telecom Italia. In this respect, the Company can acquire assets by issuing securities, bonds or any other financial instrument and by taking loans in whatever form from banks and institutional investors or in any other form, the above-mentioned list being purely enumerative and not limitative.

The Company may also have participating interests in any Luxembourg or foreign company and administrate, manage and develop its portfolio.

The Company may carry out any commercial, industrial or financial operation and perform real estate transactions pertaining directly or indirectly to its object.

Generally, the Company may carry out all transactions considered as useful to the achievement and development of its object.

The financial year begins on January 1st and ends on December 31st of each year.

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

#### Basis of preparation

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

As allowed by the amended law of August 10, 1915, the Board of Directors of the Company has decided to include the cash flow statements based on the indirect method.

Euro (“EUR”) is the book accounting currency.

#### Use of estimates

The preparation of financial statements in accordance with Luxembourg GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the annual accounts, and reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

### Foreign currency translation

The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into Euro at the end of each month. The net exchange differences that arise from these conversions are reflected in the profit and loss account in the item "Interest payable and similar charges/ Other interest and other financial income".

The realized income and charges in currencies other than Euro are recorded in their respective currencies and converted at the exchange rate prevailing on the respective transaction dates.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans, or through currency swaps contracts using the account « exchange revaluation » incorporated into "Other interest payable and similar charges" and "Other interest receivable and similar income" whose valuation at the year-end rate allows to hedge off the exchange variance risk.

The exchange rate used to convert as of December 31, 2012 the operations in USD into EUR is the following: 1 EUR= USD 1,3194.

### Formation expenses

Formation expenses may include incorporation expenses and bond issuance expenses. Incorporation expenses are valued at purchase price including the expenses incidental thereto less cumulated depreciation amounts written off over maximum 5 years. Bond issuance expenses are written off on a straight-line basis over the period of the note.

### Fixed financial assets

Fixed financial assets are stated at cost less accumulated depreciation and any impairment adjustments. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### Debtors

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

### Cash at bank and in hand

Cash at bank and in hand is defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash at bank and in hand and short-term deposits which are held to maturity are carried at cost.

### Accrued interest

Accrued interest are shown with their principal amount.

### Prepayments/Deferred income

“Prepayments” and “Deferred income” accounts include prepaid charges and deferred income.

Issue discounts are listed with the related notes, while other similar charges are classified in “Formation expenses”. All are amortized through the profit and loss account on a straight-line basis over the lifetime of the notes.

### Derivative instruments

The commitments related to currency and interest rates swaps are recorded as off-balance sheet items at the nominal value of the contracts.

No revaluations of unrealized gains or losses are recorded during the life of the contracts since there is a perfect matching of the realized gains or losses of derivatives and the realized losses or gains on the hedged items at maturity. For the exchange variance refer to the accounting policy “Foreign currency translation” above.

The Company enters into derivatives only for the purpose of hedging.

### Notes and other liabilities

Notes and other liabilities are recorded at their nominal value. Where the amount repayable on account is greater than the amount received, the difference is shown in the same line of the debt and is written off over the period of the debt based on a linear method.

### Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Comparison Period

The figures exposed in the liabilities account “Tax” as at December 31, 2011 have been reclassified in “Provisions for taxation” to ensure the comparability of the annual accounts.

### **Note 3 – Formation expenses**

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Incorporation expenses	4.562,42	7.451,66
Bond issuance expenses	26.327.415,67	30.297.649,43
	<b>26.331.978,09</b>	<b>30.305.101,09</b>

The movements for the year are only due to depreciation.

### **Note 4 – Loans to affiliated undertakings**

This item is composed by EUR 7.690.880.170,37 (EUR 8.793.691.129,80 as per December 31, 2011) being the total amount of medium-long term loans granted to Telecom Italia S.p.A. (the “Parent Company”) utilizing the proceeds received by issuing notes.

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: EUR: 1.058.000.000,00 Expiring April 1, 2013		
Floater rate: Euribor 6m + 0,73335%	<i>Classified in short term portion</i>	1.058.000.000,00
Nominal value: USD 2.000.000.000,00 Expiring November 15, 2014 [*]		
Floater rate: USDLibor 3m + 0,71000%	1.515.840.533,58	1.545.714.506,53
Nominal value: EUR: 700.000.000,00 Expiring December 18, 2014		
Fixed rate: 5,94017%	700.000.000,00	700.000.000,00
Nominal value: EUR: 20.000.000,00 Expiring December 18, 2014		
Fixed rate: 5,94017%	20.000.000,00	20.000.000,00
Nominal value: EUR: 83.000.000,00 Expiring November 2, 2015		
Floater rate: Euribor 6m + 2,06660%	83.000.000,00	83.000.000,00
Nominal value: EUR 1.816.000.000,00 Expiring September 30, 2019		
Floater rate: Euribor 6m + 0,87870%	1.816.000.000,00	1.816.000.000,00
Nominal value: EUR 642.000.000,00 Expiring December 4, 2019		
Fixed rate: 7,10320%	642.000.000,00	642.000.000,00
Nominal value: EUR: 700.000.000,00 Expiring December 18, 2019		
Fixed rate: 6,78656%	700.000.000,00	700.000.000,00
Nominal value: EUR: 20.000.000,00 Expiring December 18, 2019		
Fixed rate: 6,78656%	20.000.000,00	20.000.000,00
Nominal value: USD 1.000.000.000,00 Expiring November 15, 2034 [*]		
Floater rate: USDLibor 3m + 1,10000%	757.920.266,79	772.857.253,27
Nominal value: EUR 791.119.370,00 Expiring January 18, 2037		
Floater rate: Euribor 6m + 1,45969%	791.119.370,00	791.119.370,00
Nominal value: EUR: 645.000.000,00 Expiring December 5, 2039		
Fixed rate: 7,53220%	645.000.000,00	645.000.000,00
	<b>7.690.880.170,37</b>	<b>8.793.691.129,80</b>

[\*] Differences between December 31, 2012 and December 31, 2011 are due to exchange rate impact.

**Note 5 – Amounts owed by affiliated undertakings**

a) *becoming due and payable after less than one year*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Current portion of long term loans with Parent Company	1.058.000.000,00	<i>Classified in long term portion</i>
Accruals on long term loans with Parent Company	32.507.119,02	45.998.479,89
Short term loan with TMI UK	6.500.000,00	6.500.000,00
Short term loan with TI Germany	4.200.000,00	8.200.000,00
Accruals on short term loans with Group Companies	76.372,40	117.169,50
Accruals on interest rate swaps with Parent Company	76.517.792,89	77.596.109,71
Accruals on interest rate swaps with Group Companies	11.353.744,00	7.843.542,70
Exchange rate evaluation of currency and interest rate swaps with Parent Company	0,00	9.026.339,33
	<b>1.189.155.028,31</b>	<b>155.281.641,13</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency and interest rate swaps with Parent Company	229.332.785,39	269.695.200,77
Exchange rate evaluation of currency and interest rate swaps with Group Companies	81.607.528,77	15.214.313,32
	<b>310.940.314,16</b>	<b>284.909.514,09</b>

## Note 6 – Other debtors

### a) becoming due and payable after less than one year

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Accruals on interest rate swaps with banks	0,00	3.673.074,99
Exchange rate evaluation of currency swaps with banks	8.239,80	0,00
	<b>8.239,80</b>	<b>3.673.074,99</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency and interest rate swaps with banks	0,00	79.089.653,96
	<b>0,00</b>	<b>79.089.653,96</b>

## Note 7 – Cash at bank and in hand

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Bank current accounts	4.722.419,29	201.437,99
Bank term deposit accounts	378.960,13	1.963.714,35
Cash and cash equivalent as shown in Cash Flow Statement	5.101.379,42	2.165.152,34
Accruals on bank term deposits	134,74	1.245,00
	<b>5.101.514,16</b>	<b>2.166.397,34</b>

## Note 8 – Subscribed capital

As of December 31, 2012 the authorized, issued and fully paid in share capital of EUR 2.336.000,00 is represented by 100.000 shares with a nominal value of EUR 23,36 per share.

As of December 31, 2012 and December 31, 2011, the Company is 100% held by Telecom Italia S.p.A.

### **Note 9 – Share premium and similar premiums**

The extraordinary shareholders meeting held on May 15, 2009 decided to recapitalize the Company by injecting EUR 50.000.000,00 in cash, of which EUR 47.664.000,00 as issuance premium and EUR 2.336.000,00 as share capital. Such premium, paid on the same date, has been utilized in order to cover residual losses after capital reduction (EUR 35.853.303,61) emerging from the interim accounts as of February 28, 2009. Consequently, residual value of issuance premium is EUR 11.810.696,39.

### **Note 10 – Reserves**

Reserves are split as follows:

- The Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed. The legal reserve as of December 31, 2012 amounts to EUR 234.000,00 and equals 10% of the share capital. The reserve has been set up by the shareholders meeting as of March 2, 2005 by converting a portion of other unavailable reserves;
- Other reserves consist of Tax reserve for an amount of EUR 1.541.475,00. It has been created by the annual shareholders meetings held between the years 2006 and 2012 and is equal to five times the amount of the Net Wealth Tax to be paid for year 2005, 2006, 2007, 2008, 2010 and 2011. It will be unavailable for distribution for a five year period since the year following its creation and is detailed as below:

Fiscal year 2005[*]	EUR	83.225,00
Fiscal year 2006[*]	EUR	86.400,00
Fiscal year 2007	EUR	110.325,00
Fiscal year 2008	EUR	148.125,00
Fiscal year 2010	EUR	407.500,00
Fiscal year 2011	EUR	705.900,00
	<b>EUR</b>	<b>1.541.475,00</b>

[\*] The reserves of the fiscal years 2005 and 2006 are to be considered as available from May 31, 2012.



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

	<i>Legal Reserve (EUR)</i>	<i>Other reserves (EUR)</i>	<i>Profit/Loss brought forward (EUR)</i>	<i>Result for the financial year (EUR)</i>
Balance as at 31.12.2011	234.000,00	835.575,00	12.879.754,13	-1.333.462,56
Movements for the year				
Allocation of prior year's loss [*]	0,00	0,00	-1.333.462,56	1.333.462,56
Reallocation of Reserve [*]	0,00	705.900,00	-705.900,00	0,00
Profit/Loss for the year	0,00	0,00	0,00	3.293.485,93
Balance as at 31.12.2012	234.000,00	1.541.475,00	10.840.391,57	3.293.485,93

[\*] Shareholders Meeting held on April 04, 2012 decided to reallocate EUR 705.900,00 from the profit or loss brought forward to the net wealth tax reserve and to allocate the loss of the year 2011, amounting to EUR 1.333.462,56, to the profit or loss brought forward.

#### **Note 11 – Provisions for taxation**

	<i>December 31, 2012 EUR</i>	<i>December 31, 2011 EUR</i>
Income tax	1.717.232,33	1.365.535,31
VAT	5.248,49	14.004,12
Chamber of Commerce Fees	21.405,98	18.075,04
Other taxes	272,97	1.681,35
	<b>1.744.159,77</b>	<b>1.399.295,82</b>

#### **Note 12 – Non convertible notes**

The Company has issued non-convertible notes for a total outstanding amount of USD 11.650.000.000,00 as at December 31, 2012 (December 31, 2011 – USD 11.650.000.000,00).

i) *becoming due and payable after less than one year*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: USD 2.000.000.000,00		
Expiring November 15, 2013		
Fixed Interest Rate 5,25 %	1.515.840.533,58	<i>Classified in long term portion</i>
Prepaid charges on notes (issue discounts) - <i>Current portion</i>	-1.824.014,42	-1.910.693,64
Accrued interest on notes	90.348.359,10	92.128.931,91
	<b>1.604.364.878,26</b>	<b>90.218.238,27</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: USD 2.000.000.000,00		
Expiring November 15, 2013		
Fixed Interest Rate 5,25 %	<i>Classified in short term portion</i>	1.545.714.506,53
Nominal value: USD 1.000.000.000,00		
Expiring June 18, 2014		
Fixed Interest Rate 6,18 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.250.000.000,00		
Expiring September 30, 2014		
Fixed Interest Rate 4,95 %	947.400.333,48	966.071.566,58
Nominal value: USD 1.400.000.000,00		
Expiring October 1, 2015		
Fixed Interest Rate 5,25 %	1.061.088.373,50	1.082.000.154,57
Nominal value: USD 1.000.000.000,00		
Expiring June 4, 2018		
Fixed Interest Rate 6,99 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.000.000.000,00		
Expiring June 18, 2019		
Fixed Interest Rate 7,18 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.000.000.000,00		
Expiring November 15, 2033		
Fixed Interest Rate 6,37 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.000.000.000,00		
Expiring September 30, 2034		
Fixed Interest Rate 6,00 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.000.000.000,00		
Expiring July 18, 2036		
Fixed Interest Rate 7,20 %	757.920.266,79	772.857.253,27
Nominal value: USD 1.000.000.000,00		
Expiring June 4, 2038		
Fixed Interest Rate 7,72 %	757.920.266,79	772.857.253,27
Prepaid charges on notes (issue discounts) – <i>Long term portion</i>	- 11.641.774,65	- 13.731.170,85
	<b>7.302.288.799,86</b>	<b>8.990.055.829,72</b>

### **Note 13 – Amounts owed to credit institutions**

Those items refer to the bank loans used to fund issuance costs for notes released from 2003 to 2006. Loans have a quarterly amortizing period. During the year 2012 the loans have been reclassified towards “Amounts owed to affiliated undertakings” due to shifting of bank counterparties to Parent and Group Companies. The residual nominal amount of loans is split as follows:

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Related to notes issued as of October 29, 2003 for an initial amount of USD 31.300.000,00:		
Final payment date:		
November 15, 2013	1.221.478,66	2.499.338,60
November 15, 2033	8.358.575,65	8.744.504,03
Nominal residual amount	9.580.054,31	11.243.842,63
Related to notes issued as of October 6, 2004 for an initial amount of USD 35.652.500,00:		
Final payment date:		
September 30, 2014	1.558.635,62	2.445.910,10
September 29, 2034	11.517.645,22	12.046.390,01
Nominal residual amount	13.076.280,84	14.492.300,11
Related to notes issued as of September 28, 2005 for an initial amount of USD 19.684.000,00:		
Final payment date:		
October 1, 2015	3.956.118,33	5.273.110,66
Nominal residual amount	3.956.118,33	5.273.110,66
Related to notes issued as of July 18, 2006 for an initial amount of USD 14.036.250,00:		
Final payment date:		
July 18, 2036	4.769.915,60	4.979.220,08
Nominal residual amount	4.769.915,60	4.979.220,08

Accordingly with the amortization plan of the loans, the item can be detailed as follows:

a) *becoming due and payable after less than one year*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<u>EUR</u>	<u>EUR</u>
Portion payable within 1 year	<i>Classified in Amounts owed to affiliated undertakings</i>	3.984.218,78
Accrued interest on loans	<i>Classified in Amounts owed to affiliated undertakings</i>	178.775,95
	<b>0,00</b>	<b>4.162.994,73</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<u>EUR</u>	<u>EUR</u>
Portion payable beyond 1 year	<i>Classified in Amounts owed to affiliated undertakings</i>	32.004.254,70
	<b>0,00</b>	<b>32.004.254,70</b>

**Note 14 – Amounts owed to affiliated undertakings**

This item refers to the following payables due to Parent Company and Group Companies:

a) *becoming due and payable after less than one year*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<u>EUR</u>	<u>EUR</u>
Guarantee fee due to Parent Company	2.251.022,68	2.362.594,65
Current portion of long term loans with Parent Company	3.711.228,98	<i>Classified in Amounts owed to credit institutions</i>
Current portion of long term loans with Group Companies	308.051,98	<i>Classified in Amounts owed to credit institutions</i>
Short term loan with Group Companies	0,00	6.600.000,00
Exchange rate evaluation of currency interest rate swaps with Parent Company	0,00	30.350.259,06
Accruals on short term loans with Group Companies	0,00	15.785,67
Accruals on long term loans with Parent Company	116.409,78	<i>Classified in Amounts owed to credit institutions</i>
Accruals on long term loans with Group Companies	35.852,66	<i>Classified in Amounts owed to credit institutions</i>
Accruals on interest rate swaps with Parent Company	25.344.143,58	38.421.136,83
Accruals on interest rate swaps with Group Companies	2.471.753,68	349.562,33
	<b>34.238.463,34</b>	<b>78.099.338,54</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Long term loans with Parent Company	22.337.330,47	<i>Classified in Amounts owed to credit institutions</i>
Long term loans with Group Companies	5.025.757,65	<i>Classified in Amounts owed to credit institutions</i>
Exchange rate evaluation of currency interest rate swaps with Parent Company	224.198.391,11	126.728.392,24
	<b>251.561.479,23</b>	<b>126.728.392,24</b>

**Note 15 – Other creditors becoming due and payable after less than one year**

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency swaps with banks	0,00	15.292,71
Accruals on currency swaps with banks	139,88	38,99
Accruals on interest rate swaps with banks	0,00	2.018.308,98
	<b>139,88</b>	<b>2.033.640,68</b>

**Note 16 – Interest payable and similar charges**

a) *concerning affiliated undertakings*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest due to Parent Company	1.333.347,78	0,00
Interest due to Group Companies	402.264,96	105.933,11
Guarantee Fee due to Parent Company	2.251.023,19	2.362.594,65
Other fees due to Group Companies	125.000,00	125.000,00
Charges on interest rate swaps with Parent Company	505.377.703,39	302.861.160,24
Charges on interest rate swaps with Group Companies	215.354.129,55	105.799.301,02
Charges on currency swaps with Group Companies	477,12	0,00
	<b>724.843.945,99</b>	<b>411.253.989,02</b>

b) *other interest payable and similar charges*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest and charges vs. banks	40.468,47	1.685.465,10
Other financial commission	2.716,96	2.954,92
Interest and similar expenses on debentures	557.514.128,21	545.942.778,74
Charges on interest rate swaps with banks	67.292.670,95	29.570.152,99
Charges on currency swaps with banks	757,49	19.050,44
Losses on exchange rates	1.412.741,22	2.162.420,46
	<b>626.263.483,30</b>	<b>579.382.822,65</b>

**Note 17 – Income from financial fixed assets derived from affiliated undertakings**

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest on long term loans to Parent Company	299.354.970,51	321.833.649,76
	<b>299.354.970,51</b>	<b>321.833.649,76</b>

**Note 18 – Other interest and other financial income**

a) *derived from affiliated undertakings*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest and commissions on receivables from Group Companies	372.465,31	613.344,55
Income on interest rate swaps with Parent Company	749.565.883,66	618.689.138,56
Income on interest rate swaps with Group Companies	123.781.895,08	9.847.407,98
	<b>873.720.244,05</b>	<b>629.149.891,09</b>

b) *other interest receivable and similar income*

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest on Bank deposits	2.284,66	117.199,39
Income on interest rate swaps with banks	185.519.322,00	35.321.033,99
Income on currency swaps with banks	0,00	24.719,95
Gain on exchange rates	1.736.921,76	1.970.503,10
	<b>187.258.528,42</b>	<b>37.433.456,43</b>

**Note 19 – Hedging contracts and other derivative agreements**

In order to hedge the exchange and interest rate risks linked to the notes issued, the Company entered into several currency and interest rate swap contracts for the same duration of the hedged notes. The table here below reports the net sum of the notional amount for derivatives and counterparties.

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Currency and interest rate swap contracts with the Parent Company	5.906.643.687,00	5.906.643.687,00
Currency and interest rate swap contracts with Group Companies	562.624.698,00	178.000.000,00
Currency and interest rate swap contracts with banks	0,00	384.624.698,00
Interest rate swap contracts with the Parent Company	5.513.869.940,88	5.622.536.517,51
Interest rate swap contracts with Group Companies	738.972.260,12	367.107.195,30
Interest rate swap contracts with banks	0,00	386.428.626,63
Currency swaps with banks	279.837,21	261.313,87
	<b>12.722.390.423,21</b>	<b>12.845.602.038,31</b>

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

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Currency and interest rate swap contracts with the Parent Company	-166.010.828,01	76.529.802,61
Currency and interest rate swap contracts with Group Companies	15.429.513,07	15.918.919,42
Currency and interest rate swap contracts with banks	0,00	19.675.079,10
Interest rate swap contracts with the Parent Company	1.156.074.125,03	1.315.383.342,23
Interest rate swap contracts with Group Companies	289.462.224,75	122.953.583,86
Interest rate swap contracts with banks	0,00	190.534.463,35
Currency swaps with banks	8.019,39	-15.623,97
	<b><u>1.294.963.054,23</u></b>	<b><u>1.740.979.566,60</u></b>

#### ***Note 20 – Tax situation***

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

#### ***Note 21 – Consolidation***

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A. which are available at the registered office located in Milano, Piazza degli Affari 2.

#### ***Note 22 – Directors remuneration***

The Directors have not been remunerated in their capacity as Director during the year 2012.

#### ***Note 23 – Staff***

As of December 31, 2012 the Company has 4 employees on its payroll (December 31, 2011 – 4). The average of employees during the fiscal year has been of 4,00 resources (2011 – 3,92).



**Note 24 – Litigation**

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

**Note 25 – Auditor's fees**

During fiscal year 2012 a total of EUR 11.922,00 (Net without taxes) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (2011 – EUR 32.940,00). No other amount has been paid to the Auditor.

## **Declaration of the manager responsible for financial reporting**

---

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer as at and for the period ended December 31, 2012, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti  
Managing Director



## **Audit report**

To the Shareholders of  
**Telecom Italia Capital S.A.**

---

### **Report on the annual accounts**

We have audited the accompanying annual accounts of Telecom Italia Capital S.A., which comprise the balance sheet as at 31 December 2012, the profit and loss account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Telecom Italia Capital S.A. as of 31 December 2012, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

**Report on other legal and regulatory requirements**

The Directors' report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 15 March 2013

A handwritten signature in black ink, appearing to read 'Fabrice Goffin'. The signature is stylized and cursive.

Fabrice Goffin