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CAPITAL

**Telecom Italia Capital**

**Société Anonyme**

12, rue Eugène Ruppert

L-2453 Luxembourg

R.C.S. Luxembourg B 77.970

Unaudited Semi-Annual Accounts  
as at June 30, 2014, which have been  
authorized by the Board of Directors  
held on August 1<sup>st</sup>, 2014

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## Directors' report

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Telecom Italia Capital (herein defined as well as the "Company" or "TI Capital") ends the first six months of the year 2014 with a loss of EUR 18.199.512,42 (loss of EUR 10.171.318,36 for the same period 2013) after deducting tax charges for EUR 299.333,00 (EUR 325.950,00 for the first half 2013).

The result of the period is impacted by fees paid in connection with the novation of a number of derivatives agreements entered to cover both rate and exchange risk. The cost involved amounting to EUR 18.9 million (EUR 10.9 million same period 2013) are not deductible for tax purposes.

The contribution of the on-going borrowing and lending activity is positive for EUR 1.22million (EUR 1.36 million for the same period 2013).

The net financial position as of June 30, 2014 is positive for EUR 5.5 million (EUR 24.5 million as of December 31, 2013).

On June 18, 2014 matured and were repaid, USD 1.000.000.000,00, 6,175% notes, issued on June 18, 2009 by reducing the credit vis-à-vis Telecom Italia S.p.A.

As per June 30, 2014, the aggregate principal amount of the outstanding notes equals to USD 8.650.000.000,00 (USD 9.650.000.000,00 as of December 31, 2013). The proceeds 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 of June 30, 2014 the fully paid in share capital amounts to EUR 2.336.000,00. Notwithstanding the loss of the period, the net equity is positive for EUR 2.986.378,00 (EUR 21.185.890,42 as per December 2013).

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

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, TI 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.

The financial risks are managed through:

- the application of guidelines defined at Group level;
- 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 S.p.A. consolidated accounts and related documents.

During the second half of the year 2014 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and continue to manage the market risks related to the funding and investment activity.

It is remarked that for the remaining part of the year there are derivatives with a total notional amount of USD 450 million in respect of which the breakage clauses are expiring. The connected estimated cost worth to EUR 1,7 million.

On September 30, 2014 will mature and shall be repaid USD 1.250.000.000,00 4,95% notes, issued on October 6, 2004. The repayment will be financed by reducing the amounts deposited with the mother company, Telecom Italia S.p.A.

Financials as of June 30, 2014 herein reported have not been audited. They comprise the balance sheet, the profit and loss account, the cash flow statements and the explanatory notes.

For the Board of Directors  
The Managing Director  
Adriano Trapletti

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## Balance Sheet

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

TELECOM ITALIA CAPITAL SOCIETE ANONYME				
BALANCE SHEET AS AT JUNE 30, 2014				
ASSETS - [EUR]		30.JUNE.2014	31.DECEMBER.2013	
<b>B. Formation expenses</b>	[3]	<b>20.906.983,62</b>	<b>22.176.057,06</b>	
<b>C. Fixed assets</b>		<b>5.429.290.991,03</b>	<b>5.422.229.949,36</b>	
III. Financial fixed assets				
2. Amounts owed by affiliated undertakings	[4]	5.429.290.991,03	5.422.229.949,36	
<b>D. Current assets</b>		<b>1.357.968.713,72</b>	<b>2.069.024.029,58</b>	
II. Debtors				
2. Amounts owed by affiliated undertakings	[5]			
a) becoming due and payable within one year		1.165.985.028,05	1.895.538.883,88	
b) becoming due and payable after more than one year		191.844.542,52	170.176.479,98	
IV. Cash at bank, cash in postal cheque accounts, cheques and cash in hand	[6]	139.143,15	3.308.665,72	
<b>E. Prepayments</b>		<b>1.753.919,79</b>	<b>1.960.593,27</b>	
<b>TOTAL ASSETS</b>		<b>6.809.920.608,16</b>	<b>7.515.390.629,27</b>	
LIABILITIES - [EUR]		30.JUNE.2014	31.DECEMBER.2013	
<b>A. Capital and reserves</b>		<b>2.986.378,00</b>	<b>21.185.890,42</b>	
I. Subscribed capital	[7]	2.336.000,00	2.336.000,00	
II. Share premium and similar premiums	[8]	11.810.696,39	11.810.696,39	
IV. Reserves	[9]			
1. Legal reserve		234.000,00	234.000,00	
4. Other reserves		1.338.265,00	1.371.850,00	
V. Profit or loss brought forward		5.466.929,03	14.303.502,50	
VI. Profit or loss for the financial period		-18.199.512,42	-8.870.158,47	
<b>C. Provisions</b>		<b>2.909.434,02</b>	<b>2.626.294,76</b>	
2. Provisions for taxation	[10]	2.909.434,02	2.626.294,76	
<b>D. Not Subordinated debts</b>		<b>6.804.024.796,14</b>	<b>7.491.578.444,09</b>	
1. Debenture loans				
b) Non convertible loans	[11]			
i) becoming due and payable within one year		989.844.424,40	1.706.867.440,36	
ii) becoming due and payable after more than one year		5.408.733.848,20	5.356.020.530,79	
4. Trade creditors				
a) becoming due and payable within one year		518.512,46	578.629,53	
6. Amounts owed to affiliated undertakings	[12]			
a) becoming due and payable within one year		136.354.308,21	135.236.762,51	
b) becoming due and payable after more than one year		268.573.140,57	292.868.524,32	
8. Tax and social security debts				
b) Social security debts		562,30	6.556,58	
<b>TOTAL LIABILITIES</b>		<b>6.809.920.608,16</b>	<b>7.515.390.629,27</b>	

## Profit and Loss

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

TELECOM ITALIA CAPITAL SOCIETE ANONYME					
PROFIT AND LOSS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014					
A. CHARGES - [EUR]			B. INCOME - [EUR]		
	30.JUNE.2014	30.JUNE.2013		30.JUNE.2014	30.JUNE.2013
1. Use of merchandise, raw materials and consumable materials	58,19	0,00			
2. Other external charges	209.325,75	325.059,56	6. Income from financial fixed assets	[14] 122.573.230,03	132.364.246,53
3. Staff costs	91.562,74	104.800,75	a) derived from affiliated undertakings	122.573.230,03	132.364.246,53
a) Salaries and wages	78.584,43	89.686,96			
b) Social security on salaries and wages	9.969,97	11.372,36	8. Other interest and other financial income	[15] 294.634.103,73	731.691.561,89
c) Supplementary pension costs	2.088,80	2.497,53	a) derived from affiliated undertakings	294.376.277,10	731.043.619,74
d) Other social costs	919,54	1.243,90	b) other interest and similar financial income	257.826,63	647.942,15
4. Value adjustments	1.407.308,57	1.801.998,56	9. Extraordinary income	505,29	0,00
a) on formation expenses and on tangible and intangible fixed assets	1.407.308,57	1.801.998,56			
5. Other operating charges	57.295,81	57.924,17	12. Loss for the financial period	18.199.512,42	10.171.318,36
8. Interest and other financial charges	[13] 433.357.877,41	871.611.393,74	TOTAL INCOME	435.407.351,47	874.227.126,78
a) concerning affiliated undertakings	209.241.571,45	594.352.116,27			
b) other interest and similar financial charges	224.116.305,96	277.259.277,47			
10. Income tax	299.333,00	325.950,00			
11. Other taxes not included in the previous caption	-15.410,00	0,00			
12. Profit for the financial period	0,00	0,00			
TOTAL CHARGES	435.407.351,47	874.227.126,78			

## Cash Flow Statements

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

TELECOM ITALIA CAPITAL SOCIETE ANONYME CASH FLOW STATEMENT AS AT 30 JUNE 14			
	Note	30.JUNE.2014	30.JUNE.2013
<b>Operating Activities</b>			
Profit/Loss before tax		-17.900.179,42	-9.845.368,36
Adjustments for			
Amortization of formation expenses and on tangible and intangible fixed assets		1.407.308,57	1.801.998,56
Finance Income		-417.207.333,76	-864.055.808,42
Finance Expenses		432.499.554,86	870.485.404,05
Changes in trade and other receivables		206.730,58	250.352,27
Changes in trade and other payables		-1.321.128,92	-1.160.285,58
<b>Net cash flows from operating activities</b>		<b>-2.315.048,09</b>	<b>-2.523.707,48</b>
Income Taxes Paid		-1.605,00	-787,50
<b>Net cash flows from operating activities</b>		<b>-2.316.653,09</b>	<b>-2.524.494,98</b>
<b>Cash flows from Investing activities</b>			
Investments and re-payments in Financial Receivables		720.000.000,00	2.262.500,00
Interest, commissions and other financial income received		419.383.687,48	865.776.035,24
<b>Net cash flows from investing activities</b>		<b>1.139.383.687,48</b>	<b>868.038.535,24</b>
<b>Cash flows from Financing activities</b>			
Net change in short-term financial payables		13.400.000,00	2.500.000,00
Repayments of borrowings		-720.037.577,12	-2.033.861,66
Interest, commissions and other financial expenses paid		-433.600.483,14	-871.046.527,37
<b>Net cash flows from financing activities</b>		<b>-1.140.238.060,26</b>	<b>-870.580.389,03</b>
Net Increase / Decrease in Cash and Cash Equivalents		-3.171.025,87	-5.066.348,77
Net foreign exchange differences in C&CE		1.553,30	169.542,17
Cash and cash equivalents at 01 January		3.308.615,72	5.101.379,42
<b>Cash and cash equivalents at the end of the period</b>	[6]	<b>139.143,15</b>	<b>204.572,82</b>



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

<b>TELECOM ITALIA CAPITAL SOCIETE ANONYME</b>			
<b>CASH FLOW STATEMENT AS AT 30 JUNE 14</b>			
	Note	30.JUNE.2014	31.DECEMBER.2013
<b>Operating Activities</b>			
Profit/Loss before tax		-17.900.179,42	-8.006.286,22
Adjustments for			
Amortization of formation expenses and on tangible and intangible fixed assets		1.407.308,57	3.486.812,80
Finance Income		-417.207.333,76	-1.463.594.268,07
Finance Expenses		432.499.554,86	1.464.992.552,45
Changes in trade and other receivables		206.730,58	490.211,05
Changes in trade and other payables		-1.321.128,92	-159.430,01
<b>Net cash flows from operating activities</b>		<b>-2.315.048,09</b>	<b>-2.790.408,00</b>
Income Taxes Paid		-1.605,00	-3.210,00
<b>Net cash flows from operating activities</b>		<b>-2.316.653,09</b>	<b>-2.793.618,00</b>
<b>Cash flows from Investing activities</b>			
Investments and re-payments in Financial Receivables		720.000.000,00	1.490.084.101,04
Interest, commissions and other financial income received		419.383.687,48	1.478.510.494,14
<b>Net cash flows from investing activities</b>		<b>1.139.383.687,48</b>	<b>2.968.594.595,18</b>
<b>Cash flows from Financing activities</b>			
Net change in short-term financial payables		13.400.000,00	0,00
Repayments of borrowings		-720.037.577,12	-1.489.892.630,02
Interest, commissions and other financial expenses paid		-433.600.483,14	-1.477.847.243,25
<b>Net cash flows from financing activities</b>		<b>-1.140.238.060,26</b>	<b>-2.967.739.873,27</b>
Net Increase / Decrease in Cash and Cash Equivalents		-3.171.025,87	-1.938.896,09
Net foreign exchange differences in C&CE		1.553,30	146.132,39
Cash and cash equivalents at 01 January		3.308.615,72	5.101.379,42
<b>Cash and cash equivalents at the end of the period</b>	[6]	<b>139.143,15</b>	<b>3.308.615,72</b>

## **Notes to the accounts**

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*as at June 30, 2014, which have been authorized by the Board of Directors held on August 1<sup>st</sup>, 2014*

### **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 the companies within Telecom Italia Group. 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 semi-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 statement 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 EUR at the balance sheet date.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans or through derivative instruments, such as Cross Currency Interest Rate Swaps ("CCIRS") or foreign exchange agreements, all hereby referred to as "currency swaps".

Currency swaps combine two positions that are represented by the amounts that will be exchanged with the counterparty at the maturity of the contract. They are recorded as assets or liabilities to the net between the payable and the receivable amount. Generally, one is in EUR and the other in currencies other than EUR. This latter is converted into EUR at the balance sheet date.

The unrealized exchange differences that arise from all these conversions are reflected in the profit and loss account in the items "Other interest and similar financial charges/ Other interest and similar financial income".

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

The exchange rate used to convert as of June 30, 2014 the operations in USD into EUR is the following: 1 EUR= 1,36580 USD.

### 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.

### Financial fixed assets

Financial fixed 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, cash in postal cheque accounts, cheques and cash in hand

Cash at bank, cash in postal cheque accounts, cheques and cash 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 valuations 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 rate variance refer to the accounting policy “Foreign currency translation” above.

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

### Not subordinated debts

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.

### Note 3 – Formation expenses

	June 30, 2014	December 31, 2013
	EUR	EUR
Incorporation expenses	228,56	1.673,18
Bond issuance expenses	20.906.755,06	22.174.383,88
	<b>20.906.983,62</b>	<b>22.176.057,06</b>

The movements for the period are only due to depreciation.

### Note 4 – Financial fixed assets - Amounts owed by affiliated undertakings

This item is composed by EUR 5.429.290.991,03 (EUR 5.422.229.949,36 as per December 31, 2013) 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.

	June 30, 2014	December 31, 2013
	EUR	EUR
Nominal value: EUR: 83.000.000,00 Expiring November 02, 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 04, 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 <sup>[*]</sup> Floater rate: USDLibor 3m + 1,10000%	732.171.621,03	725.110.579,36
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 05, 2039 Fixed rate: 7,53220%	645.000.000,00	645.000.000,00
	<b>5.429.290.991,03</b>	<b>5.422.229.949,36</b>

[\*] Differences between June 30, 2014 and December 31, 2013 are due to exchange rate impact.

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

*a) becoming due and payable within one year*

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: EUR: 1.058.000.000,00 Expiring April 01, 2014 Floater rate: USDLibor 6m + 0,73335%	1.058.000.000,00	1.058.000.000,00
Nominal value: EUR: 700.000.000,00 Reimbursed June 18, 2014 Fixed rate: 5,94017%	0,00	700.000.000,00
Nominal value: EUR: 20.000.000,00 Reimbursed June 18, 2014 Fixed rate: 5,94017%	0,00	20.000.000,00
Accruals on long term loans with Parent Company	26.299.319,01	27.843.449,65
Short term loan with T.M.I. Telemedia International Limited	6.500.000,00	6.500.000,00
Accruals on short term loans with Group Companies	92.821,54	92.998,45
Accruals on derivatives with Parent Company	64.176.039,52	65.012.013,50
Accruals on derivatives with Group Companies	10.916.847,98	10.970.370,39
Currency swaps with Parent Company	0,00	3.841.080,68
Currency swaps with Group Companies	0,00	3.278.971,21
	<b><u>1.165.985.028,05</u></b>	<b><u>1.895.538.883,88</u></b>

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

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Currency swaps with Parent Company	111.313.231,59	96.000.106,55
Currency swaps with Group Companies	80.531.310,93	74.176.373,43
	<b><u>191.844.542,52</u></b>	<b><u>170.176.479,98</u></b>

**Note 6 – Cash at bank, cash in postal cheque accounts, cheques and cash in hand**

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Bank current accounts	139.143,15	308.615,72
Bank term deposit accounts	0,00	3.000.000,00
Cash and cash equivalent as shown in Cash Flow Statement	139.143,15	3.308.615,72
Accruals on bank term deposits	0,00	50,00
	<b>139.143,15</b>	<b>3.308.665,72</b>

**Note 7 – Subscribed capital**

As of June 30, 2014 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 June 30, 2014 and December 31, 2013, the Company is 100% held by Telecom Italia S.p.A.

**Note 8 – 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 9 – Reserves**

Reserves are split as follows:

- Legal Reserve: 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 at June 30, 2014 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 1.338.265,00 It has been created by the annual shareholders meetings held between the years 2008 and 2014 and is equal to five times the amount of the Net wealth tax to be paid for fiscal year 2008, 2010, 2011 and 2013. It will be unavailable for distribution for a five year period since the year following its creation and is detailed as below:

Fiscal year 2008	EUR	148.125,00
Fiscal year 2010	EUR	407.500,00
Fiscal year 2011	EUR	705.900,00
Fiscal year 2013	EUR	76.740,00
	<b>EUR</b>	<b>1.338.265,00</b>

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

	<i>Legal Reserve (EUR)</i>	<i>Other reserves (EUR)</i>	<i>Profit or loss brought forward (EUR)</i>	<i>Profit or loss for the financial period (EUR)</i>
Balance as at 31.12.2013	234.000,00	1.371.850,00	14.303.502,50	-8.870.158,47
Movements for the period				
Allocation of prior year's Profit or loss <sup>[*]</sup>	0,00	0,00	-8.870.158,47	8.870.158,47
Reallocation of Reserve <sup>[*]</sup>	0,00	-33.585,00	33.585,00	0,00
Profit or loss for the period	0,00	0,00	0,00	-18.199.512,42
Balance as at 30.06.2014	234.000,00	1.338.265,00	5.466.929,03	-18.199.512,42

<sup>[\*]</sup> Shareholders Meeting held on April 02, 2014 decided to reallocate EUR 110.325,00 (Net wealth tax reserve for fiscal year 2007) from "Other reserves" to "Profit or loss brought forward" considering that the five year unavailability period for tax purposes has expired and to allocate the loss of the year 2013, amounting to EUR 8.870.158,47 to the profit or loss brought forward. Moreover the Shareholders Meeting decide to create a new Net wealth tax reserve of EUR 76.740,00 for the fiscal year 2013 by reallocating the same amount from "Profit and loss brought forward" to "Other reserves".



**Note 10 – Provisions for taxation**

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Income tax	2.875.622,58	2.577.894,58
Value added tax	5.907,55	4.501,20
Chamber of Commerce fees	24.434,91	24.434,91
Net wealth tax	3.148,00	18.558,00
Other taxes	320,98	906,07
	<b>2.909.434,02</b>	<b>2.626.294,76</b>

**Note 11 – Non convertible loans**

The Company has issued non-convertible notes for a total outstanding amount of USD 8.650.000.000,00 as at June 30, 2014 (December 31, 2013 – USD 9.650.000.000,00).

*i) becoming due and payable within one year*

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: USD 1.000.000.000,00		
Reimbursed June 18, 2014		
Fixed Interest Rate 6,1750%	0,00	725.110.579,36
Nominal value: USD 1.250.000.000,00		
Expiring September 30, 2014		
Fixed Interest Rate 4,9500%	915.214.526,28	906.388.224,20
Prepaid charges on notes (issue discounts) - <i>Current portion</i>	-1.193.133,96	-1.340.056,09
Accrued interest on notes	75.823.032,08	76.708.692,89
	<b>989.844.424,40</b>	<b>1.706.867.440,36</b>

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

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<u>EUR</u>	<u>EUR</u>
Nominal value: USD 1.400.000.000,00		
Expiring October 01, 2015		
Fixed Interest Rate 5,2500%	1.025.040.269,44	1.015.154.811,11
Nominal value: USD 1.000.000.000,00		
Expiring June 04, 2018		
Fixed Interest Rate 6,9990%	732.171.621,03	725.110.579,36
Nominal value: USD 1.000.000.000,00		
Expiring June 18, 2019		
Fixed Interest Rate 7,1750%	732.171.621,03	725.110.579,36
Nominal value: USD 1.000.000.000,00		
Expiring November 15, 2033		
Fixed Interest Rate 6,3750%	732.171.621,03	725.110.579,36
Nominal value: USD 1.000.000.000,00		
Expiring September 30, 2034		
Fixed Interest Rate 6,0000%	732.171.621,03	725.110.579,36
Nominal value: USD 1.000.000.000,00		
Expiring July 18, 2036		
Fixed Interest Rate 7,2000%	732.171.621,03	725.110.579,36
Nominal value: USD 1.000.000.000,00		
Expiring June 04, 2038		
Fixed Interest Rate 7,7210%	732.171.621,03	725.110.579,36
Prepaid charges on notes (issue discounts) – <i>Long term portion</i>	-9.336.147,42	-9.797.756,48
	<b><u>5.408.733.848,20</u></b>	<b><u>5.356.020.530,79</u></b>

## Note 12 – Amounts owed to affiliated undertakings

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

### a) becoming due and payable within one year

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Loans with Group Companies	13.400.056,00	0,00
Guarantee fee due to Parent Company	858.322,03	2.098.747,62
Fees due to Group Companies	89.940,28	31.944,44
Current portion of long term loans with Parent Company <sup>[*]</sup>	2.101.711,39	2.389.574,00
Current portion of long term loans with Group Companies <sup>[*]</sup>	127.242,50	210.059,60
Currency swaps with Parent Company	95.587.784,72	105.067.529,95
Currency swaps with Group Companies	2.124,94	5.420,43
Accruals on long term loans with Parent Company	92.702,85	106.728,23
Accruals on long term loans with Group Companies	19.670,86	20.917,23
Accruals on derivatives with Parent Company	20.395.617,87	21.715.270,93
Accruals on derivatives with Group Companies	3.678.184,67	3.590.570,08
Accruals on loans with Group Companies	950,10	0,00
	<b>136.354.308,21</b>	<b>135.236.762,51</b>

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

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Long term loans with Parent Company <sup>[*]</sup>	20.168.105,61	20.925.731,07
Long term loans with Group Companies <sup>[*]</sup>	2.638.090,35	2.653.244,52
Currency swaps with Parent Company	245.766.944,61	269.289.548,73
	<b>268.573.140,57</b>	<b>292.868.524,32</b>

[\*] 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. Due to shifting of bank counterparties to Parent and Group Companies the loans have been classified in “Amounts owed to affiliated undertakings” . The residual nominal amount of loans is split as follows:

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<u>EUR</u>	<u>EUR</u>
Related to notes issued as of October 29, 2003 for an initial amount of USD 31.300.000,00:		
Final payment date:		
November 15, 2033	7.738.223,50	7.777.624,16
Nominal residual amount	7.738.223,50	7.777.624,16
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	233.926,27	659.734,46
September 29, 2034	10.670.568,51	10.723.107,73
Nominal residual amount	10.904.494,78	11.382.842,19
Related to notes issued as of September 28, 2005 for an initial amount of USD 19.684.000,00:		
Final payment date:		
October 01, 2015	1.958.555,79	2.567.269,88
Nominal residual amount	1.958.555,79	2.567.269,88
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	4.433.875,78	4.450.872,96
Nominal residual amount	4.433.875,78	4.450.872,96

**Note 13 – Interest and other financial charges***a) concerning affiliated undertakings*

	<i>June 30, 2014</i>	<i>June 30, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Charges on Loans with Parent Company	539.106,15	617.130,69
Charges on Loans with Group Companies	68.580,85	99.569,15
Interest due to Group Companies	134.308,17	44.251,00
Guarantee fee due to Parent Company	858.322,55	1.125.989,69
Other fees due to Group Companies	119.330,22	123.194,29
Charges on derivatives with Parent Company	179.010.156,02	565.300.537,27
Charges on derivatives with Group Companies	28.511.767,49	27.041.444,18
	<b>209.241.571,45</b>	<b>594.352.116,27</b>

*b) other interest and similar financial charges*

	<i>June 30, 2014</i>	<i>June 30, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Interest and charges vs. banks	0,00	63,18
Other financial commissions	1.106,37	1.258,22
Interest and similar expenses on debentures	223.856.917,57	276.756.804,23
Charges on derivatives with banks	0,00	146,38
Losses on exchange rates	258.282,02	501.005,46
	<b>224.116.305,96</b>	<b>277.259.277,47</b>

**Note 14 – Income from financial fixed assets derived from affiliated undertakings**

	<i>June 30, 2014</i>	<i>June 30, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Interest on long term loans to Parent Company	122.573.230,03	132.364.246,53
	<b>122.573.230,03</b>	<b>132.364.246,53</b>

**Note 15 – Other interest and other financial income***a) derived from affiliated undertakings*

	<i>June 30, 2014</i>	<i>June 30, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Interest and commissions on receivables from Group Companies	110.937,91	106.794,52
Income on derivatives with Parent Company	255.220.420,83	605.169.269,33
Income on derivatives with Group Companies	39.044.918,36	125.767.555,89
	<b>294.376.277,10</b>	<b>731.043.619,74</b>

*b) other interest and similar financial income*

	<i>June 30, 2014</i>	<i>June 30, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Interest on Bank deposits	320,33	685,65
Gain on exchange rates	257.506,30	647.256,50
	<b>257.826,63</b>	<b>647.942,15</b>

**Note 16 – 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 sum of the notional amount for derivatives and counterparties.

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Cross Currency Interest Swap (CCIRS) contracts with Parent Company	5.099.057.981,49	5.712.845.236,93
Cross Currency Interest Swap (CCIRS) contracts with Group Companies	651.565.106,44	756.423.148,00
Interest Rate Swap (IRS) contracts with Parent Company	4.045.248.206,18	4.006.235.950,98
Interest Rate Swap (IRS) contracts with Group Companies	530.824.425,25	525.705.170,04
Foreign exchange agreements with Group Companies	645.681,68	568.717,97
	<b><u>10.327.341.401,04</u></b>	<b><u>11.001.778.223,92</u></b>

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

	<i>June 30, 2014</i>	<i>December 31, 2013</i>
	<i>EUR</i>	<i>EUR</i>
Cross Currency Interest Swap (CCIRS) contracts with Parent Company	-427.433.268,13	-473.566.433,80
Cross Currency Interest Swap (CCIRS) contracts with Group Companies	-22.554.346,13	-10.413.716,45
Interest Rate Swap (IRS) contracts with Parent Company	695.962.174,37	554.943.573,00
Interest Rate Swap (IRS) contracts with Group Companies	123.694.979,04	92.429.690,42
Foreign exchange agreements with Group Companies	2.082,23	-4.090,52
	<b><u>369.671.621,38</u></b>	<b><u>163.389.022,65</u></b>

**Note 17 – Tax situation**

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

**Note 18 – 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 and on the website <http://www.telecomitalia.com>

Telecom Italia S.p.A. accounts are not consolidated in the accounts of any other company.

**Note 19 – Directors remuneration**

The Directors have not been remunerated in their capacity as Director during the first six months of 2014.

**Note 20 – Staff**

As of June 30, 2014 the Company has on its payroll 3 employees (June 30, 2013 – 4). The average of employees during the fiscal period has been of 3 resources (2013 – 4).

**Note 21 – Litigation**

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

**Note 22 – Auditor's fees**

During the first six months a total of EUR 14.024,52 (VAT excluded) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (2013 – EUR 5.736,60). No other amount has been paid to the Auditor.



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

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Pursuant to paragraph 4 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 interim 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 an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Adriano Trapletti  
Managing Director