TELECOM ITALIA S P A
Form 6-K
June 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF JUNE 2013

TELECOM ITALIA S.p.A.
(Translation of registrant's name into English)

Piazza degli Affari 2
20123 Milan, Italy
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F [X]   FORM 40-F [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): [ ]

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

YES [ ]   NO [X]

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _______

Annual Report
2012

Contents

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, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.

Tim Brasil Serviços e Participações S.A.

- Tim Participações S.A.
  - Intelig Telecomunicações Ltda

	– Tim Celular S.A.
ARGENTINA The Argentina Business Unit (Sofora - Telecom Argentina group) operates in Argentina and Paraguay. Specifically, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal (with the Personal brand), and in Paraguay it operates in mobile telecommunications 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 S.p.A. • La 7 S.r.l. • MTV group • TI Media Broadcasting S.r.l. (network operator)
OLIVETTI Olivetti operates in the sector of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. The reference market is focused mainly in Europe, Asia and South	Olivetti S.p.A. • Advalso

America.

- Olivetti I-Jet
- European Affiliates

Board of Directors

Executive Chairman	Franco Bernabè
Deputy Chairman	Aldo Minucci
Managing Director and Chief Operating Officer	Marco Patuano
Directors	César Alierta Izuel
	Tarak Ben Ammar
	Lucia Calvosa (independent)
	Elio Cosimo Catania (independent)
	Massimo Egidi (independent)
	Jean Paul Fitoussi (independent)
	Gabriele Galateri di Genola
	Julio Linares López
	Gaetano Micciché
	Renato Pagliaro
	Mauro Sentinelli (independent)
	Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

Board of Statutory Auditors

Chairman	Enrico Maria Bignami
Acting Auditors	Roberto Capone
	Gianluca Ponzellini
	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Ugo Rock
	Vittorio Mariani
	Franco Patti

Letter to the Shareholders

To the Shareholders,

Weak signs of recovery between 2010 and 2011 in Italy, our main market, gave way in 2012 to a sharp contraction in gross domestic product, which was driven down largely by falling domestic demand. The repercussions of the global financial crisis, combined with the structural weaknesses in the economy and the recessive effects of the necessary austerity measures adopted by the government, paint a picture that, unfortunately, is not particularly encouraging. The difficulties of the Italian economy were accompanied by a considerable slowdown in growth in Argentina and, in particular, in Brazil, the two Latin American countries in which we operate, with a consequent reduction in the compensating impact on the overall revenue performance that the Group had benefited from in the past.

In recent years, Telecom Italia has responded to a negative macroeconomic situation, which has led businesses and consumers to cutback sharply on consumption, and to growing both intra-market and inter-market competition, by taking steps which have brought tangible and visible results. These steps have included reducing Group debt by over six billion euros in five years, transforming and streamlining operating processes, injecting new life and vitality into our range of products and services, and making successful inroads into new business segments (such as cloud computing). The Group has also improved its regulatory standing with the creation of the Open Access division and the Supervisory Board.

These important accomplishments on the domestic market have been mirrored by equally significant achievements on the international front. Just three years ago, our international business (including international wholesale) accounted for just a quarter of revenues; today it accounts for two-fifths. Our plans to step-up and expand business in South America, combined with the growth in the sector in both Argentina and Brazil, are expected to bring our international revenues up in line with domestic revenues within just a few of years.

The balancing of our domestic and international revenues will represent the crowning achievement of the efforts made to transform Telecom Italia into a truly global player. It will also bring the Group two key advantages: on the operating front it will enable us to make the most of the different growth prospects offered by Europe and South America; and on the financial front, more stable and diversified cash flows will allow the Group to defend and improve its creditworthiness, enabling it to continue to enjoy favorable terms on capital markets.

In the year recently ended, net debt was reduced by more than two billion euros, demonstrating our capacity to generate the cash flow needed to meet the debt reduction targets we have set ourselves for the coming years.

In 2012 Telecom Italia Group continued to optimize its business unit portfolio through the sale of non-strategic assets. As part of this ongoing process, the Group sold off Matrix in 2012, and started the work that ultimately led to the sale of the subsidiary La7, completed in March 2013.

The debt reduction has not, however, penalized capital expenditure, which further grew over the year. Excluding the approximately 1.2 billion euros for the purchase of LTE frequencies in 2011, capital expenditure in 2012 rose by over 100 million euros in Italy, and by over 200 million euros in Brazil.

In recent years, much has been done to revitalize the Group by making its products and services more competitive, boosting capital expenditure, pushing into adjacent markets, and reducing Group debt. This has all been possible thanks to the ability to free-up financial and human resources, through efficiency improvements in processes, organizational structures, and purchasing.

Despite all that has been done, we still have a long way to go. Improving efficiency is not a static target; efficiency goals change hand in hand with the market and new technologies. The never-ending pursuit of greater efficiency in operations, management and sales is the only true recipe for delivering the expected results, even in an economic environment as fraught with difficulty as today s.

We have always been, and will always continue to be, firmly committed to achieving visible and tangible results, no matter how difficult the situation. This is the commitment on which our Group is wagering its future. The commitment that demonstrates the value, determination, and professionalism of all the people who work at Telecom Italia.

Franco Bernabé

Report on Operations

Telecom Italia Group

Key Operating and Financial Data - Telecom Italia Group

Consolidated Operating and Financial Data(*)

(millions of euros)		2012	2011 (Restated)	2010 (Restated)	2010	2009	2008
Revenues		29,503	29,957	27,571	27,571	26,894	28,746
EBITDA	(1)	11,645	12,171	11,452	11,412	11,115	11,090
EBIT before goodwill impairment loss	(1)	6,215	6,684	5,904	5,864	5,499	5,437
Goodwill impairment loss		*(4,289)*	*(7,364)*	*(46)*	*(46)*	*(6)*	–
EBIT	(1)	1,926	(680)	5,858	5,818	5,493	5,437
Profit (loss) before tax from continuing operations		(44)	(2,743)	4,128	4,132	3,339	2,894
Profit (loss) from continuing operations		(1,279)	(4,353)	3,579	3,582	2,218	2,217
Profit (loss) from Discontinued operations/ Non-current assets held for sale		2	(13)	(7)	(7)	(622)	(39)
Profit (loss) for the year		(1,277)	(4,366)	3,572	3,575	1,596	2,178
Profit (loss) for the year attributable to owners of the Parent		(1,627)	(4,811)	3,118	3,121	1,581	2,177
Normalized profit (loss) for the year attributable to owners of the Parent		2,394	2,518	2,605	2,608	2,203	2,277
Capital expenditures		5,196	6,095	4,583	4,583	4,543	5,040

Consolidated Financial Position Data

(millions of euros)		12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Total Assets		77,555	83,886	89,040	86,267	86,223
Total equity		23,012	26,694	32,555	27,120	26,328
- attributable to owners of the Parent		19,378	22,790	28,819	25,952	25,598
- attributable to non-controlling interests		3,634	3,904	3,736	1,168	730
Total Liabilities		54,543	57,192	56,485	59,147	59,895
Total equity and liabilities		77,555	83,886	89,040	86,267	86,223
Share capital		10,604	10,604	10,600	10,585	10,591
Net financial debt carrying amount	(1)	29,053	30,819	32,087	34,747	34,039
Adjusted net financial debt	(1)	28,274	30,414	31,468	33,949	34,526
Adjusted net invested capital	(2)	51,286	57,108	64,023	61,069	60,854
		55.1%	53.3%	49.2%	55.6%	56.7%

Debt Ratio (Adjusted net financial debt/
Adjusted net invested capital)

Consolidated Profit Ratios(*)

		2012	2011 (Restated)	2010 (Restated)	2010	2009	2008
EBITDA/Revenues	(1)	39.5%	40.6%	41.5%	41.4%	41.3%	38.6%
EBIT/Revenues (ROS)	(1)	6.5%	n.s.	21.2%	21.1%	20.4%	18.9%
Adjusted net financial debt /EBITDA	(1)	2.4	2.5	2.7	2.8	3.1	3.1

(1) Details are provided under Alternative Performance Measures .

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

(*) Starting from 2012 the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 and 2010 have been restated on a consistent basis. Further details and the effects on the periods presented are provided in the Note Accounting policies to the Telecom Italia Group consolidated financial statements at December 31, 2012.

Headcount, number in the Group at year-end (1) (number)	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	83,184	84,154	84,200	71,384	75,320
Headcount relating to Discontinued operations/Non-current assets held for sale	–	–	–	2,205	2,505

Headcount, average number in the Group(1) (equivalent number)	2012	2011	2010	2009	2008
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	78,564	78,369	70,150	69,964	73,508
Headcount relating to Discontinued operations/Non-current assets held for sale	–	–	–	2,168	3,277

Financial Ratios

Telecom Italia S.p.A. (euros)		2012	2011	2010
Share prices (December average)				
- Ordinary		0.70	0.83	0.98
- Savings		0.62	0.69	0.81
Dividends per share	(2)			
- Ordinary		0.020	0.043	0.058
- Savings		0.031	0.054	0.069
Pay Out Ratio	(2) (*)	70%	53%	32%
Market to Book Value	(**)	0.74	0.74	0.76
Dividend Yield (based on December average)	(2) (***)			
- Ordinary		2.86%	5.21%	5.93%
- Savings		5.03%	7.79%	8.47%

Telecom Italia Group (euros)	2012	2011	2010
Basic earnings per share ordinary shares	(0.08)	(0.25)	0.16
Basic earnings per share savings shares	(0.08)	(0.25)	0.17

(1)

Includes employees with temp work contracts.

(2)

For the year 2012, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting held on April 17, 2013. For all periods, the reference index was assumed to be the Parent s Normalized Earnings, calculated by excluding Non-recurring items (as detailed in the Note Significant non-recurring events and transactions in the separate financial statements of Telecom Italia S.p.A. at December 31, 2012).

(*)

Dividends paid in the following year/Profit for the year.

(**)

Capitalization/Equity of Telecom Italia S.p.A.

(***)

Dividends per share/Share prices.

Highlights 2012

The year 2012 continues to be affected by recession pressures in the domestic market and the slowdown in the economies of Latin American countries. These macroeconomic factors were combined with a general tightening of the competitive environment in the telecommunications sector, which the Group responded to both through an expansion of the offer range and continuous pursuit of operating efficiencies, maintaining, over 2012, the development of Consolidated revenues and defense of the Profit Base, which remained solid and among the best in the sector.

The results of these actions have made it possible to continue reducing financial debt and generating cash flow.

- Consolidated Revenues, in line with the prior year (+0.5% in organic terms), came to 29.5 billion euros, while EBITDA of 11.6 billion euros fell 4.3% (-2.0% in organic terms).

- In organic terms, Operating Profit (EBIT) decreased by 2.4%. In reported terms, EBIT for 2012 amounts to 1.9 billion euros, also as a result of the goodwill impairment loss totaling 4.3 billion euros, relating to Core Domestic (4 billion euros), the Argentina Business Unit (168 million euros) and Media (105 million euros). Reported EBIT for 2011 was a negative 680 million euros and was penalized by the impairment loss on goodwill allocated to Core Domestic (7.3 billion euros) and Media (57 million euros).

- The loss attributable to owners of the Parent came to 1.6 billion euros (compared to a loss of 4.8 billion euros in 2011). On a comparable basis the Normalized profit (loss) for the year attributable to owners of the Parent amounts to 2.4 billion euros, a decrease of 124 million euros compared to 2011.

- Operating cash generated in 2012, amounting to 6.5 billion euros, more than compensated requirements for the payment of dividends, taxes and finance expenses. Adjusted net financial debt came to 28.3 billion euros at the end of 2012, down 2.1 billion euros compared to the end of 2011.

Financial Highlights

(millions of euros)		2012	2011	% Change	
				Reported	Organic
Revenues		29,503	29,957	(1.5)	0.5
EBITDA	(1)	11,645	12,171	(4.3)	(2.0)
EBITDA Margin		*39.5%*	*40.6%*	*(1.1)pp*	
Organic EBITDA Margin		*40.2%*	*41.2%*	*(1.0)pp*	
EBIT before goodwill impairment loss	(1)	6,215	6,684	(7.0)	
Goodwill impairment loss		*(4,289)*	*(7,364)*	*(41.8)*	
EBIT	(1)	1,926	(680)	n.s.	(2.4)

EBIT Margin		*6.5%*	*n.s.*	*n.s.*
Organic EBIT Margin		*22.0%*	*22.7%*	*(0.7)pp*
Profit (loss) for the period attributable to owners of the Parent		(1,627)	(4,811)	(66.2)
Normalized profit (loss) for the period attributable to owners of the Parent		2,394	2,518	(4.9)
Capital expenditures (CAPEX)		5,196	6,095	(14.7)
		12/31/2012	12/31/2011	Change
Adjusted net financial debt	(1)	28,274	30,414	(2,140)

(1)

Details are provided under Alternative Performance Measures .

Starting from 2012 the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 have been restated on a consistent basis. Further details and the effects on the periods presented are provided in the Note Accounting policies to the Telecom Italia Group Consolidated Financial Statements at December 31, 2012.

Review of Operating and Financial Performance - Telecom Italia Group

Revenues

Revenues amount to 29,503 million euros in 2012, down 1.5% from 29,957 million euros in 2011; the fall of 454 million euros is primarily due to the Domestic Business Unit, offset by increases in the Argentina Business Unit (+564 million euros) and the Brazil Business Unit (+134 million euros). In terms of organic variation, consolidated revenues grew by 0.5% (+151 million euros).

Specifically, the organic change in revenues is calculated by excluding:

- the effect of foreign exchange rate fluctuations[1] of -569 million euros, mainly affecting the Brazil Business Unit (-535 million euros) and to a largely negligible extent the Argentina Business Unit (-55 million euros) and other Group companies (+21 million euros);

- the effect of the change in the scope of consolidation (-14 million euros), largely due to sales of Loquendo (Domestic BU) on September 30, 2011 and Matrix (Other Operations) on October 31, 2012;

- the effect of a reduction in revenues of 22 million euros due to the closing of commercial disputes with other operators.

The breakdown of revenues by operating segment is the following:

(millions of euros)	2012		2011		Change		
		% of total		% of total	amount	%	% organic
Domestic	17,884	60.6	18,991	63.4	(1,107)	(5.8)	(5.8)
Core Domestic	*16,933*	*57.4*	*18,082*	*60.4*	*(1,149)*	*(6.4)*	*(6.2)*
International Wholesale	*1,393*	*4.7*	*1,393*	*4.6*	–	–	*(1.4)*
Brazil	7,477	25.3	7,343	24.5	134	1.8	9.8
Argentina	3,784	12.8	3,220	10.7	564	17.5	19.6
Media, Olivetti and Other Operations	564	1.9	700	2.3	(136)		
Adjustments and Eliminations	*(206)*	*(0.6)*	*(297)*	*(0.9)*	*91*		
Total consolidated revenues	29,503	100.0	29,957	100.0	(454)	(1.5)	0.5

The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a decline of 1,097 million euros (-5.8%) in organic Revenues in 2012, compared to 2011.

This trend is partly attributable to the entry into force, in July 2012, of the new mobile termination rates (MTR), which involve a 53% reduction (from 5.3 to 2.5 euro cents), representing a sharp drop compared to the tariff revisions in the previous year. Specifically, in the fourth quarter of 2012 alone, the impact on consolidated revenues from incoming mobile traffic resulting from the introduction of the new rates is -84 million euros. The performance of the domestic market was also affected by the macroeconomic environment and the competitive scenario.

In detail:

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Organic revenues from services amount to 17,099 million euros in 2012, down 5.5% compared to 2011. In particular, revenues from services in the Mobile business show a decrease of 9% compared to 2011 (-11.7% in the fourth quarter of 2012). The Fixed-line business recorded falling revenues from services of 487 million euros (-3.8% compared to 2011, -6.6% in the fourth quarter of 2012).

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Product revenues total 807 million euros and are 93 million euros lower compared to 2011. The growth in Mobile devices, driven by a greater commercial push on mobile Internet-enabled devices was absorbed by the sharp contraction of Fixed-line products, attributable to a contraction of the market, but also to a more selective commercial strategy to defend the profit base.

As for the Brazil Business Unit, organic revenues grew 9.8% in 2012 compared to the prior year. Revenues from services continued their positive trend (+6.9% compared to 2011), driven by the growth of the customer base (reaching approximately 70.4 million lines at December 31, 2012, up 9.8% compared to December 31, 2011). Handset revenues also showed a positive trend (+35.3% compared to 2011).

As for the Argentina Business Unit, organic revenues gained 19.6% compared to 2011 (+619 million euros). In particular, mobile business revenues recorded growth of 22.2%, while the fixed area, which is coming out of a decade of partially blocked regulated tariffs, grew 13.0% over the prior year.

An in-depth analysis of revenue performance by individual Business Unit is provided under Financial and Operating Highlights - The Business Units of the Telecom Italia Group .

EBITDA

EBITDA is 11,645 million euros, decreasing 526 million euros (-4.3%) compared to the prior year; the EBITDA margin is 39.5% (40.6% in 2011). In organic terms EBITDA fell by 246 million euros (-2.0%), 1 percentage point lower in proportion to revenues, down from 41.2% in 2011 to 40.2% in 2012, due to the greater weight of South American revenues, where margins are lower than for Domestic Business, and to 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)	2012		2011		Change		
		% of total		% of total	amount	%	% organic
Domestic	8,676	74.5	9,173	75.4	(497)	(5.4)	(4.9)
EBITDA margin	*48.5*		*48.3*			*0.2 pp*	*0.4 pp*
Brazil	1,996	17.1	1,990	16.4	6	0.3	8.9
EBITDA margin	*26.7*		*27.1*			*(0.4) pp*	*(0.2) pp*
Argentina	1,121	9.6	1,035	8.5	86	8.3	11.7
EBITDA margin	*29.6*		*32.2*			*(2.6) pp*	*(2.2) pp*
Media, Olivetti and Other Operations	(139)	(1.1)	(26)	(0.3)	(113)		
	(9)	*(0.1)*	*(1)*	*–*	*(8)*		

Adjustments and Eliminations							
Total consolidated EBITDA	11,645	100.0	12,171	100.0	(526)	(4.3)	(2.0)
EBITDA margin	*39.5*		*40.6*			*(1.1) pp*	*(1.0) pp*

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

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Acquisition of goods and services (12,948 million euros; 12,859 million euros in 2011). The increase of 89 million euros is largely due to the surge in the commercial and technical costs of the Argentina Business Unit (+300 million euros, including a negative exchange rate effect of 24 million euros) and the Brazil Business Unit (+109 million euros, including a negative exchange rate effect of 320 million euros), needed to support the growth of the customer base, voice and data traffic volumes, sales of mobile Internet-enabled devices and, consequently revenues in the Latin America area. Countering these changes is the domestic business which reduced acquisitions by 345 million euros compared to 2011, also partly attributable to a decrease in the portion of revenues to be paid to other operators, connected to the reduction in mobile termination rates.

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Employee benefits expenses (3,919 million euros; 3,992 million euros in 2011).

Employee benefits expenses record a decrease of 73 million euros. The change was influenced by:

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the reduction of 203 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses, resulting from the decrease in the average salaried workforce of 1,214 compared to 2011, and from restructuring expenses that were 4 million euros lower (8 million euros in 2012; 12 million euros in 2011). In 2012, these expenses derive from the balance between the provision charge of 15 million euros for Olivetti I-Jet (resulting from the agreements signed with the trade unions of the company put into liquidation of June 19, 2012 and June 25, 2012) and the realize to the income statement of a total of 7 million euros from the remaining amount of the provision for mobility under Law 223/91 by the Parent Telecom Italia S.p.A. (6 million euros), and by TI Sparkle and TI Information Technology (for a total of 1 million euros). In 2011 the provision for mobility under Law 223/91, relating to the agreements signed in 2010 with the trade unions of the Parent Telecom Italia S.p.A. and of TI Information Technology, was adjusted by a total of 12 million euros;

–

the increase of 130 million euros in the foreign component of employee benefits expenses, linked to the increase of 1,409 in the average salaried workforce, relating to the Brazil Business Unit and the Argentina Business Unit, and the overall increase of 17 million euros in restructuring expenses, related to the provision charge of the Argentina Business Unit (15 million euros) and Olivetti Engineering S.A., a subsidiary of Olivetti I-Jet (2 million euros, for the agreements with the trade unions of July 13, 2012).

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Other operating expenses (1,882 million euros; 1,859 million euros in 2011).

These are substantially in line with 2011.

The decreases for the Domestic Business Unit (-70 million euros) and the Brazil Business Unit (-28 million euros, including a negative exchange rate effect of 54 million euros) are essentially offset by the increases for the other Business Units, primarily the Argentina Business Unit (+76 million euros, including a negative exchange rate effect of 6 million euros). In particular:

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write-downs and expenses in connection with credit management (548 million euros; 533 million euros in 2011) consist of 370 million euros (389 million euros in 2011) relating to the Domestic Business Unit, 100 million euros (unchanged compared to 2011) relating to the Brazil Business Unit and 47 million euros (29 million euros in 2011) relating to the Argentina Business Unit;

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provision charges (214 million euros; 128 million euros in 2011) consist of 91 million euros (60 million euros in 2011) relating to the Brazil Business Unit, 92 million euros (50 million euros in 2011) relating to the Domestic Business Unit and 17 million euros (unchanged compared to 2011) relating to the Argentina Business Unit;

–

telecommunications operating fees and charges (621 million euros; 675 million euros in 2011) consist of 487 million euros (554 million euros in 2011) relating to the Brazil Business Unit, 73 million euros (61 million euros in 2011) relating to the Argentina Business Unit and 59 million euros (58 million euros in 2011) relating to the Domestic Business Unit.

Depreciation and amortization

Details are as follows:

(millions of euros)	2012	2011	Change
Amortization of intangible assets with a finite useful life	2,212	2,163	49
Depreciation of property, plant and equipment owned and leased	3,128	3,333	(205)
Total	5,340	5,496	(156)

The decrease in depreciation and amortization charges is mainly in reference to the Domestic Business Unit (-305 million euros), essentially due to the lower amounts of depreciable or amortizable assets, offset by the increase in depreciation and amortization charges of the Argentina Business Unit (+130 million euros), partly due to the reduction in the useful lives of Intangible assets recognized in relation to Customer Relationships which resulted in an increase of 66 million euros in amortization charges.

Gains (losses) on disposals of non-current assets

In 2012, gains on disposals of non-current assets were recorded for 53 million euros and included the gain, net of the incidental expenses of 49 million euros, in connection with the completion of the sale of Matrix on October 31, 2012, as well as net gains on non-current assets mainly relating to the Domestic Business Unit.

In 2011, net gains on disposals of non-current assets amounted to 3 million euros and included the gain of 35 million euros, net of the related incidental expenses, realized on the sale of Loquendo at the end of September 2011 and the net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

Impairment reversals (losses) on non-current assets

Net impairment losses on non-current assets amount to 4,432 million euros in 2012 (7,358 million euros in 2011) and are essentially the result of the impairment test conducted for the annual financial statements. Specifically, this item refers to:

–

4,016 million euros for the impairment loss on the Core Domestic Cash Generating Unit in the Domestic Business Unit. This goodwill was previously written down by 7,307 million euros in 2011;

–

a total impairment of Non-Current Assets and Goodwill for 157 million euros in the Media Business Unit, taking account of the outcome of the impairment test process and the expected sale of the investee La7 S.r.l.. Specifically, the amount of impairment loss relating solely to the goodwill of the Media Business Unit is 105 million euros, while the remainder relates to non-current assets. This goodwill was previously written down by 57 million euros in 2011;

–

a total impairment loss of 253 million euros on Intangible assets and Goodwill in the Argentina Business Unit, recognized at the time control was acquired by the Telecom Italia Group. In detail, the amount of the impairment loss on Goodwill is 168 million euros, while the remaining portion (85 million euros) relates to the impairment loss on Customer relationships.

There are also additional impairment losses totaling 6 million euros.

Further details are provided in the Notes to the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

EBIT

EBIT totals 1,926 million euros (negative 680 million euros in 2011) and includes in particular the effects of the above-mentioned impairment losses, relating to the impairment test process (4,426 million euros in 2012, 7,364 million euros in 2011). Organic EBIT is 6,504 million euros, decreasing 157 million euros (-2.4%) compared to 2011; the EBIT margin is 22.0% (22.7% in 2011; -0.7 percentage points).

Share of profits (losses) of associates and joint ventures accounted for using the equity method

The Share of profits (losses) of associates and joint ventures accounted for using the equity method is a loss of 6 million euros in 2012 , and mainly relates to Tiglio I S.r.l.

In 2011 this was a loss of 39 million euros, due to the write-down of the entire investment in the Italtel Group.

Other income (expenses) from investments

In 2012 other income (expenses) from investments shows a net income of 2 million euros.

In 2011, the income balance of Other income (expenses) from investments was 16 million euros and referred to the gain (17 million euros) on the sale of the entire 27% investment in the Cuban operator EtecSA.

Finance income (expenses)

Finance income (expenses) is an expense balance of 1,966 million euros (an expense balance of 2,040 million euros in 2011), with an improvement of 74 million euros. This decrease is essentially due to the positive change in the value of several hedging derivatives, attributable to market fluctuations linked to currency translation. These changes, which are unrealized accounting changes, do not result in any actual monetary settlement. Other positive effects derive from the higher capitalization of finance expenses relating to the purchase of rights to use LTE mobile telephony frequency bands, by the Domestic Business Unit.

Income tax expense

Income tax expense amounts to 1,235 million euros, decreasing 375 million euros compared to 2011. This item also includes the non-recurring benefit totaling 319 million euros, related to the recognition of the receivables for years prior to 2012, following the entry into force of Decree Law 16/2012, which enabled a request for a refund of IRES tax for the IRAP tax calculated on the cost of labor. Net of this effect, income tax decreased by 56 million euros compared to 2011, mainly as a result of the reduction in the tax base of the Parent Telecom Italia.

Profit (loss) from Discontinued operations/Non-current assets held for sale

This item shows a profit of 2 million euros in 2012, compared to a loss of 13 million euros in the previous year. It includes income and expenses incurred in connection with sales transactions of prior years.

Profit (loss) for the year

Profit (loss) for the year can be broken down as follows:

(millions of euros)	2012	2011
Profit (loss) for the year	(1,277)	(4,366)
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(1,629)	(4,798)
Profit (loss) from Discontinued operations/Non-current assets held for sale	2	(13)
Profit (loss) for the year attributable to owners of the Parent	(1,627)	(4,811)
Non-controlling interests:		
Profit (loss) from continuing operations	350	445
	–	–

Profit (loss) from Discontinued operations/Non-current assets held for sale		
Profit for the year attributable to Non-controlling interests	350	445

In 2012 the normalized profit (loss) for the year attributable to owners of the Parent, calculated net of the impact of non-recurring items – including the above-mentioned impairment losses on Goodwill and Non-Current Assets and of the tax benefit related to the request for an IRES tax refund for the IRAP tax calculated on labor costs, amounts to a profit of 2,394 million euros (2,518 million euros in 2011).

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

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

Domestic

The company Matrix, which was sold on October 31, 2012, was classified under Other Operations in 2012, and thus excluded from the Domestic Core Domestic Business Unit. The periods under comparison have been reclassified accordingly.

(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	17,884	18,991	(1,107)	(5.8)	(5.8)
EBITDA	8,676	9,173	(497)	(5.4)	(4.9)
EBITDA margin	*48.5*	*48.3*		*0.2pp*	*0.4pp*
EBIT	1,078	(1,996)	3,074	n.s.	(2.6)
EBIT margin	*6.0*	*n.s.*		*n.s.*	*1.0pp*
Headcount at year-end (number) (*)	53,224	55,047	(1,823)	(3.3)	

(*)

The headcount change includes the effects resulting from the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso in the Olivetti Business Unit.

Fixed

	12/31/2012	12/31/2011	12/31/2010
Physical accesses at year-end (thousands)	21,153	21,712	22,122
of which Retail physical accesses at year-end (thousands)	13,978	14,652	15,351
Broadband accesses in Italy at year-end (thousands)	8,967	9,089	9,058
of which Retail broadband accesses (thousands)	7,020	7,125	7,175
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	114.5	112.2	111.7
access and carrier network in optical fiber (millions of km - fiber)	5.7	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	7,000
South America (km of fiber)	30,000	30,000	30,000
Atlantic (km of submarine cable)	15,000	15,000	15,000
Total traffic:			
Minutes of traffic on fixed-line network (billions)	101.8	108.9	121.5

Domestic traffic	85.9	93.3	104.1
International traffic	15.9	15.6	17.4
DownStream and UpStream traffic volumes (PBytes)	2,202	1,937	1,647

Mobile

	12/31/2012	12/31/2011	12/31/2010
Number of lines at year-end (thousands)	32,159	32,227	31,018
Change in lines (%)	(0.2)	3.9	0.5
Churn rate (%) (1)	26.6	21.9	22.0
Total average outgoing traffic per month (millions of minutes)	3,664	3,633	3,305
Total average outgoing and incoming traffic per month (millions of minutes)	4,921	4,843	4,597
Mobile browsing volumes (PBytes) (2)	93.1	75.9	53.0
Average monthly revenues per line (euro) (3)	15.5	17.4	19.7

(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):

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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 intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:

–

Consumer: comprises the aggregate of voice and Internet services and products managed and developed for persons and families in the Fixed and Mobile telecommunications markets and also public telephony;

–

Business: is constituted by the aggregate of voice, data, Internet and ICT solutions services and products managed and developed for SMEs (small and medium-size enterprises) and SOHOs (Small Office Home Office) in the Fixed and Mobile telecommunications markets;

–

Top: comprises the aggregate of voice, data, Internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise customers in the Fixed and Mobile telecommunications markets;

–

National Wholesale: consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market;

–

Other (Support Structures): includes:

–

Technology & IT: constitutes services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding customer services in addition to the development and operation of information services;

–

Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.

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International Wholesale: includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and Internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

Main financial data

Key results of the Domestic Business Unit by customer/business segment in 2012 compared to 2011 are as follows:

Core Domestic

(millions of euros)	2012	2011	Change %		
			amount	%	% organic
Revenues	16,933	18,082	(1,149)	(6.4)	(6.2)
Consumer (1)	*8,835*	*9,168*	*(333)*	*(3.6)*	*(3.6)*
Business (2)	*2,777*	*3,064*	*(287)*	*(9.4)*	*(9.4)*
Top (2)	*3,102*	*3,529*	*(427)*	*(12.1)*	*(12.1)*
National Wholesale	*2,052*	*2,104*	*(52)*	*(2.5)*	*(1.5)*
Other	*167*	*217*	*(50)*	*(23.0)*	*(19.6)*
EBITDA	8,460	8,941	(481)	(5.4)	(4.8)
EBITDA margin	*50.0*	*49.4*		*0.6pp*	*0.7pp*
EBIT	958	(2,136)	3,094	n.s.	(2.3)
EBIT margin	*5.7*	*(11.8)*		*17.5pp*	*1.2pp*
Headcount at year-end (number)	52,289	54,038	(1,749)	(3.2)	

(1) The company Matrix, which was sold on October 31, 2012, was classified under Other Operations in 2012, and thus excluded from the Consumer segment of Core Domestic. The periods under comparison have been reclassified accordingly.

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

International Wholesale

(millions of euros)	2012	2011	Change %		
			amount	%	% organic
Revenues	1,393	1,393	-	-	(1.4)
of which third party	*985*	*960*	*25*	*2.6*	*0.5*
EBITDA	229	243	(14)	(5.8)	(9.2)
EBITDA margin	*16.4*	*17.4*		*(1.0)pp*	*(1.4)pp*
EBIT	121	141	(20)	(14.2)	(12.4)
EBIT margin	*8.7*	*10.1*		*(1.4)pp*	*(1.2)pp*
Headcount at year-end (number)	935	1,009	(74)	(7.3)	

Revenues

In addition to the deteriorating economic climate and a market characterized by sharp tariff cuts (on traditional services) and tough competition, the decline in revenues also partly reflects the new mobile termination rates (MTR) -

which involve a 53% reduction (from 5.3 to 2.5 euro cents) - and a Europe-wide cap on the price of roaming traffic.

Against this background, the performance for the year, in terms of organic change over the previous year, shows a 5.8% contraction compared to 2011. The downturn is primarily attributable to the decline in revenues on traditional services, only partly offset by the growth in innovative services, especially Fixed-line Broadband and Mobile Internet.

In detail:

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Consumer: Revenues for the Consumer segment amount to 8,835 million euros, decreasing 333 million euros compared to 2011 (-3.6%); the trend continues the overall recovery from the reduction recorded in 2011 (-5.0%) despite the negative impact of lower termination rates (-211 million euros). This recovery was due in particular to a stabilization of the erosion in voice revenues (both Fixed and Mobile), strong growth in Browsing revenues and growth in sales of devices (+118 million euros, +35.4%), especially Mobile Internet enabled devices. The reduction, which is entirely attributable to revenues from services (-451 million euros, -5.1%), is attributable in addition to the aforementioned lower termination rates to traditional Voice and Messaging services, the effects of which are in part offset by growth in Mobile Internet (+70 million euros, +13%) and Fixed Broadband Access (+34 million euros, +3.6%). In the fourth quarter, however, revenues slowed down (-4.5% compared to the same period in 2011, -1.9% excluding the impact from the above-mentioned reduction in Mobile termination rates MTR), especially in the Mobile segment, which - in addition to the discontinuity in incoming termination - also reflects increased competitive pressure with resulting contraction in financial and commercial performance.

•

Business: Revenues in the Business segment amount to 2,777 million euros in 2012, decreasing 9.4% or 287 million euros compared to 2011, due to erosion of the customer base (-6.6% Fixed and -4.8% Mobile, excluding data only lines, compared to 2011) and to a fall in usage and Average Revenue Per User (ARPU) especially on Voice services. The fourth quarter of 2012 shows a 12.1% contraction, with a downturn compared to previous periods mainly attributable to the impact of the new mobile termination rates and declining Data Roaming revenues resulting from the introduction of a *price cap* in the European Union.

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Top: revenues in the Top segment amount to 3,102 million euros in 2012, decreasing 427 million euros (-12.1%) compared to 2011, mainly due to a slow down in demand due to the negative economic situation. Revenues from services show a decline of 260 million euros (-8.6%), primarily attributable to traditional voice and data services, only partly offset by growth in new services, in particular Cloud and Mobile Internet. In the fourth quarter, performance continued to slow down (-17.8%), partly due to the reduction in termination rates and declining Data Roaming revenues (following the aforementioned introduction of a price cap in the European Union). Revenues from sales show a decrease of 167 million euros (-34% compared to 2011). This performance, in addition to the deteriorating economic situation already noted for services, also reflects more selective commercial policies aimed at improving profitability.

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National Wholesale: Revenues in the Wholesale segment amount to 2,052 million euros in 2012, a decline of 52 million euros (-2.5%) on 2011, mainly due to lower carrying and interconnection revenues, only partly offset by growth in access services to alternative operators.

International Wholesale Revenues

In 2012 the International Wholesale segment revenues amount to 1,393 million euros, in line with the previous year (-1.4% in organic terms).

Over the year the Company continued to pursue rationalization measures aimed at a more selective customer portfolio and traffic strategy.

Revenue performance in the Voice (+1.4%) and IP/Data (+5.8%) businesses helped to contain the contraction reported in the other segments, especially multinational customers (-10%).

The last quarter of 2012 shows a decline in revenues of 39 million euros over the same period in 2011 (-10.2%; -10.9% in organic terms). The Voice (-10.7%), Mobile Services (-12.7%) and multinational customer (-6.6%) segments show a decline, while revenues from IP/Data continue a positive trend (+4%).

EBITDA

EBITDA for the Domestic Business Unit amounts to 8,676 million euros in 2012, down 497 million euros from 2011 (-5.4%). The EBITDA margin is 48.5%, up +0.2 percentage points on 2011. This result was affected by the reduction in revenues from services (-1,014 million euros, -397 million euros in the fourth quarter of 2012), only partly offset by the lower revenues due to other TLC operators (mainly attributable to lower termination rates) and by efficiencies achieved through the selective control and containment of operating expenses.

Organic EBITDA in 2012 amounts to 8,829 million euros (-458 million euros, or -4.9% compared with 2011), with an organic EBITDA margin of 49.3%, up on the previous year (+0.4 percentage points).

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

(millions of euros)	2012	2011	Change
Acquisition of goods and services	6,409	6,754	(345)
Employee benefits expenses	2,834	3,031	(197)
Other operating expenses	699	769	(70)

In particular:

- acquisition of goods and services decreased by 345 million euros (-5.1%) compared to 2011. This reduction is mainly due to a decline in revenues due to other TLC operators, owing principally to the reduction in Mobile termination rates;

- employee benefits expenses are down 197 million euros from 2011, attributable mostly to the reduction in the average salaried workforce by 710 compared to the previous year, offset by higher expenses as a result of the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit. In 2012, an amount of 7 million euros was released to the income statement following the closure of the mobility procedure under Law 223/91, covering the period 2010-2012, by the Parent Telecom Italia S.p.A., Telecom Italia Sparkle and TI Information Technology. It should be noted that in 2011 the provision for mobility expenses under Law 223/91, relating to the agreement signed with the trade unions in 2010, had been increased by 12 million euros, 9 million euros of which for Telecom Italia S.p.A. and 3 million euros for TI Information Technology.

- other operating expenses decreased by 70 million euros compared with 2011, as shown in the following table:

(millions of euros)	2012	2011	Change

Write-downs and expenses in connection with credit management	370	389	(19)
Provision charges	92	50	42
Telecommunications operating fees and charges	59	58	1
Indirect duties and taxes	103	108	(5)
Sundry expenses	75	164	(89)
Total	699	769	(70)

EBIT

EBIT is a positive 1,078 million euros, compared to a negative 1,996 million euros in 2011, up 3,074 million euros. This performance particularly comprises the goodwill impairment loss of 4,016 million euros referring to the Core Domestic Cash Generating unit (7,307 million euros in 2011), recorded on the basis of the results of the impairment test.

Organic EBIT, calculated by also excluding the above mentioned goodwill impairment losses, is 5,226 million euros with a decrease of 139 million euros (-2.6%) compared to 2011. The organic EBIT margin increased from 28.2% in 2011 to 29.2% in 2012.

Brazil

	(millions of euros)		(millions of Brazilian reais)		Change		
	2012	2011	2012	2011	amount	%	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	Organic
Revenues	7,477	7,343	18,764	17,086	1,678	9.8	9.8
EBITDA	1,996	1,990	5,008	4,631	377	8.1	8.9
EBITDA margin	*26.7*	*27.1*	*26.7*	*27.1*		*(0.4)pp*	*(0.2)pp*
EBIT	966	984	2,424	2,289	135	5.9	7.4
EBIT margin	*12.9*	*13.4*	*12.9*	*13.4*		*(0.5)pp*	*(0.3)pp*
Headcount at year-end (number)			11,622	10,539	1,083	10.3	

	2012	2011
Lines at year-end (thousands)	70,362	64,070
MOU (minutes/month)(*)	135.8	128.6
ARPU (reais)	19.1	21.4

(*)

Net of visitors.

Main financial data

Revenues

Revenues for 2012 amount to 18,764 million reais, increasing 1,678 million reais on 2011 (+9.8%). Revenues from services come to 16,420 million reais, up from 15,353 million reais in 2011 (+6.9%). Revenues from product sales are up from 1,733 million reais in 2011 to 2,344 million reais in 2012 (+35.3%), reflecting the company s strategy of market penetration with high-end handsets (smartphones/web phones) and tablets as an important lever for the expansion of revenues from data services.

Mobile Average Revenue Per User (ARPU) amounts 19.1 reais for 2012 compared with 21.4 reais for 2011 (-10.7%). The performance of ARPU and revenues from services not only reflects competitive pressures that have led to a decline in unit prices in the voice business, but also the lower mobile operator network interconnection rate, in force since February 2012.

The total number of lines at December 31, 2012 is 70.4 million, 9.8% higher than on December 31, 2011, representing a 26.9% market share in terms of lines.

Revenues in the fourth quarter of 2012 amount to 5,026 million reais, up 315 million reais compared to the same period of 2011 (+6.7%).

EBITDA

EBITDA in 2012 amounts to 5,008 million reais, an improvement of 377 million reais on 2011 (+8.1%). EBITDA growth was sustained by the increase in revenues, mainly VAS, essentially offset by higher termination costs due to increased traffic volumes and costs strictly linked to changes in the customer base. EBITDA margin is 26.7%, 0.4 percentage points lower than 2011.

Organic EBITDA in 2012 amounts to 5,061 million reais, an improvement of 412 million reais on 2011 (+8.9%). Organic EBITDA margin is 27.0%, 0.2 percentage points lower than the previous year. The increased margin in revenues from services was offset by the greater share of revenues from sales of smartphones/web phones.

It should be noted that organic EBITDA is calculated excluding the administrative penalties imposed by the Brazilian telecommunications authority (ANATEL) and other non organic expenses for a total of 53 million reais. In particular, disputes with ANATEL concerning the years 2007/2009 and amounting to 26 million reais, were recognized following confirmation by the Board of the Brazilian telecommunications authority of measures taken against Tim Brasil. An additional 11 million reais relates to disputes with other operators regulated by ANATEL for the years 2008-2011. Sundry non organic expenses mainly relate to the write-down of receivables; Tim Brasil will take the necessary legal steps to recover the amount of these receivables. Organic EBITDA in 2011 took into account of non organic expenses of 18 million reais.

EBITDA in the fourth quarter of 2012 amounts to 1,422 million reais, up 104 million reais compared to the same period of 2011 (+7.9%).

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

	(millions of euros)		(millions of Brazilian reais)		
	2012 (a)	2011 (b)	2012 (c)	2011 (d)	Change (c-d)
Acquisition of goods and services	4,508	4,399	11,313	10,234	1,079
Employee benefits expenses	344	321	865	747	118
Other operating expenses	719	747	1,804	1,738	66
Change in inventories	2	(19)	4	(45)	49

•

acquisition of goods and services amounts to 11,313 million reais (10,234 million reais in 2011). The 10.5% increase compared to the previous year (+1,079 million reais) can be analyzed as follows:

+418 million reais for the revenues due to other TLC operators;

+497 million reais for the purchases referring primarily to product cost;

+191 million reais for rent and lease costs;

-27 million reais for external services costs;

•

employee benefits expenses, amounting to 865 million reais, are up 118 million reais compared with 2011 (+15.8%). The average workforce grew from 9,194 in 2011 to 10,051 in 2012. The percentage of employee benefits expenses to revenues is 4.6%, increasing 0.2 percentage points compared to 2011.

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other operating expenses come to 1,804 million reais, increasing 3.8% (1,738 million reais in 2011). Such expenses consist of the following:

(millions of Brazilian reais)	2012	2011	Change
Write-downs and expenses in connection with credit management	251	232	19
Provision charges	228	140	88
Telecommunications operating fees and charges	1,223	1,290	(67)
Indirect duties and taxes	30	33	(3)
Sundry expenses	72	43	29
Total	1,804	1,738	66

EBIT

EBIT amounts to 2,424 million reais, up 135 million reais on 2011. This result is due to a higher contribution from EBITDA partly offset by higher depreciation and amortization charges of 241 million reais (2,581 million reais in 2012, compared to 2,340 million reais in 2011).

The organic change in EBIT compared to the same period in 2011 is positive by 170 million reais with an EBIT margin of 13.2% (13.5% in 2011) due to the non-organic items described above.

Organic EBIT in the fourth quarter of 2012 amounts to 754 million reais, an improvement of 32 million reais on 2011.

Argentina

	(millions of euros)		(millions of Argentine pesos)				
	2012	2011	2012	2011	Change		
					amount	%	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	Organic
Revenues	3,784	3,220	22,116	18,496	3,620	19.6	19.6
EBITDA	1,121	1,035	6,553	5,947	606	10.2	11.7
EBITDA margin	*29.6*	*32.2*	*29.6*	*32.2*		*(2.6)pp*	*(2.2)pp*
EBIT	214	509	1,253	2,925	(1,672)	(57.2)	(3.5)
EBIT margin	*5.7*	*15.8*	*5.7*	*15.8*		*(10.1)pp*	*(3.1)pp*
Headcount at year-end (number) (*)			16,803	16,350	453	2.8	

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

	2012	2011	Change	
			amount	%
Fixed-line				
Lines at year-end (thousands)	4,128	4,141	(13)	(0.3)
ARBU (Average Revenue Billed per User) (Argentine pesos)	48.2	45.7	2.5	5.5
Mobile				
Lines at year-end (thousands)	21,276	20,342	934	4.6
Telecom Personal lines (thousands)	18,975	18,193	782	4.3
% postpaid lines (**)	*33%*	*32%*		*1pp*
MOU Telecom Personal (minutes/month)	99	99	-	-
ARPU Telecom Personal (Argentine pesos)	57.7	51.4	6.3	12.3
Núcleo mobile lines (thousands)(***)	2,301	2,149	152	7.1
% postpaid lines (**)	*19%*	*17%*		*2pp*
Broadband				
Broadband accesses at year-end (thousands)	1,629	1,550	79	5.1
ARPU (Argentine pesos) (****)	102.3	87.0	15.3	17.6

(**)

Includes lines with a ceiling invoiced at the end of the month which can be topped-up with prepaid refills.

(***) Includes WiMAX lines.

(****) The calculation method was updated in order to exclude, from the customer base, the Internet sticks sold to customers who already have ADSL access.

Revenues

Revenues in 2012 amount to 22,116 million pesos, increasing 3,620 million pesos (+19.6%) compared with 2011 (18,496 million pesos) thanks to growth of the broadband and mobile customer base, as well as ARPU. Revenues for the fourth quarter of 2012 amount to 6,092 million pesos, up 953 million pesos compared to the same period of 2011 (5,139 million pesos). The main source of revenues for the Argentina Business Unit is mobile telephony, which accounts for about 73% of the consolidated revenues of the Business Unit, increasing more than 22% compared to 2011.

Fixed-line telephony service: the number of fixed lines at December 31, 2012 is substantially unchanged 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 5% compared to 2011, thanks to the sale of value-added services and the distribution of traffic plans.

Mobile telephony service: Telecom Personal mobile lines in Argentina increased by 782 thousand compared to the end of 2011, arriving at a total of 18,975 thousand lines at December 31, 2012, 33% of which were postpaid. At the same time, thanks to high-value customer acquisitions and leadership in the smartphone segment, ARPU grew 12.3% to 57.7 pesos (51.4 pesos in the 2011). A large part of this growth is attributable to value added services (including SMS messaging and Internet) which together account for approximately 53% of revenues from mobile telephony services in 2012.

In Paraguay, the Núcleo customer base grew about 7.1% compared to December 31, 2011 and at December 31, 2012 it reached 2,301 thousand lines, 19% of which were postpaid.

Broadband: Telecom Argentina s overall portfolio of broadband lines at December 31, 2012 reached 1,629 thousand accesses, with an increase of 79 thousand accesses compared to the end of 2011, representing about 5.1% growth. ARPU was up 17.6% to 102.3 pesos (87 pesos in 2011) through the change in pricing strategy and reduced promotional discount associated with customer acquisition and retention.

EBITDA

EBITDA shows an increase of 606 million pesos to 6,553 million pesos in 2012, +10.2% compared with 2011. The EBITDA margin is 29.6%, 2.6 percentage points less than in 2011, mainly due to the higher impact of acquisitions of materials and services and employee benefits expenses.

Organic EBITDA - calculated excluding the 90 million pesos in restructuring costs involving employees of certain specific segments - is up 11.7% compared with 2011 with an EBITDA margin of 30%.

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

	(millions of euros)		(millions of Argentine pesos)		
	2012	2011	2012	2011	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	1,698	1,398	9,927	8,031	1,896
Employee benefits expenses	586	478	3,422	2,746	676
	408	332	2,387	1,903	484

Other operating expenses					
Change in inventories	(16)	(17)	(94)	(96)	2

- acquisition of goods and services totals 9,927 million pesos (8,031 million pesos in 2011). The increase of 23.6% compared to the prior year (+1,896 million pesos) is mainly due to higher external service costs of 1,246 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 424 million pesos;

- employee benefits expenses amount to 3,422 million pesos, increasing 676 million pesos compared to 2011 (+24.6%). The rise is due to salary increases, resulting from the periodic revision of trade union agreements, mainly to reflect the effect of inflation, and the above-mentioned staff restructuring costs of 90 million pesos only partially offset by a reduction in other employee benefits expenses totaling 65 million pesos. In addition, an increase is recorded in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues is 15.5%, increasing 0.7 percentage points over 2011;

- other operating expenses: amount to 2,387 million pesos, increasing 25.4% (1,903 million pesos in 2011). Such expenses consist of the following:

(millions of Argentine pesos)	2012	2011	Change
Write-downs and expenses in connection with credit management	275	169	106
Telecommunications operating fees and charges	424	348	76
Indirect duties and taxes	1,592	1,286	306
Sundry expenses	96	100	(4)
Total	2,387	1,903	484

EBIT

EBIT for 2012 comes to 1,253 million pesos compared to 2,925 million pesos recorded in the previous year. The decrease (1,672 million pesos) is essentially due to the restructuring expenses described above, as well as the complete impairment of the goodwill , recognized at the time control was acquired by the Telecom Italia Group (979 million pesos), the partial impairment of the Customer relationships (501 million pesos) and the increase in amortization charges for Customer relationships resulting from the updating of their useful lives (383 million pesos).

In the absence of such impairment losses and restructuring expenses, EBIT for 2012 would have been 2,823 million pesos, down 102 million pesos compared to 2011, with an EBIT margin of 12.7% (-3.1 percentage points compared to the previous year).

Media

On May 9, 2012, the Board of Directors of Telecom Italia Media took note of the decision of the Board of Directors of Telecom Italia S.p.A. to initiate the process of disposal of the Media segment. As a result, in May 2012 a company restructuring transaction was initiated that led to the creation of La7 S.r.l., a wholly owned subsidiary of Telecom Italia Media S.p.A., to which - with effect from September 1, 2012 - the television assets were transferred through the assignment of a business area by Telecom Italia Media S.p.A.

(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	222	238	(16)	(6.7)	(6.7)
EBITDA	(45)	27	(72)	n.s.	n.s.
EBITDA margin	*(20.3)*	*11.3*			
EBIT	(263)	(88)	(175)	n.s.	n.s.
EBIT margin	*n.s.*	*(37.0)*			
Headcount at year-end (number)	735	765	*(30)*	*(3.9)*	

	2012	2011
La7 audience share Free to Air (average during the period, in %)	3.5	3.8
Gross advertising revenues (millions of euros)	225	242

At December 31, 2012, the three Digital Multiplexes of Telecom Italia Media Broadcasting cover 94.9% of the Italian population.

Revenues

Revenues amount to 222 million euros in 2012, decreasing 16 million euros compared to 238 million euros in 2011. In greater detail:

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Revenues for La7[2] in 2012, before intragroup eliminations, amount to 123 million euros, down 16 million euros on the previous year. This result reflects the reduction in net advertising revenues, which in 2012 declined by 3 million euros, -2.7% on 2011, which was nevertheless sharply counter to the market trend (Nielsen estimates a decrease of 15.3% in the television market for the period January-November 2012); this decline was exacerbated by the loss of revenues from the Competence Center, which ceased operations in September 2011, and had previously generated revenues for 13 million euros.

In 2012, La7 had an average daily audience share of 3.5% and the La7d channel reported net advertising revenues of 8 million euros, up 2 million euros (+27.7%).

- MTV Group revenues come to 55 million euros, before intragroup eliminations, decreasing 19 million euros compared to 2011 (74 million euros). This reduction is mainly due to lower net advertising revenues (40 million euros in 2012 compared to 50 million euros in 2011) and the decrease in Playmaker activities to third parties by 7 million euros.

- Revenues from Network Operator activities (TIMB), before intragroup eliminations, total 75 million euros, compared to 55 million euros in the previous year, increasing by 20 million euros. The positive change is due both to the evolution of existing contracts and to new channels put under contract at the end of 2011 for digital terrestrial TV on Multiplexes, which led to the full use of the available digital band since February 2012.

EBITDA

EBITDA in 2012 is a negative 45 million euros, down 72 million euros compared to 2011, which, included compensation of 21 million euros for the early termination of the Competence Center contract with Telecom Italia S.p.A.; in organic terms, the reduction comes to 51 million euros. In particular:

- EBITDA of La7 is -66 million euros, with a negative change of 71 million euros compared to 2011 (5 million euros including the above-mentioned compensation); on a comparable basis the reduction is 50 million euros. This result largely reflects both the contraction in revenues mentioned above and higher operating costs mostly connected with programming costs of La7 (30 million euros) and La7d (4 million euros) channels. The result was also adversely affected by the absence of profits from the Competence Center business (13 million euros of revenues in 2011) which ceased operations in September 2011;

- EBITDA for the MTV group amounts to -11 million euros, decreasing by 17 million euros compared to 2011 primarily due to the decrease in revenues described above, and as a result of the profound editorial transformation of the main channel which during the year went from being a purely musical channel to a more entertainment oriented channel targeted to a young/adult audience;

- EBITDA relating to Network Operator activities is 43 million euros, improving 20 million euros over 2011; this result was influenced by the above-mentioned increase in sales while operating costs were substantially in line with the previous year.

EBIT

EBIT is a negative 263 million euros, compared to -88 million for 2011, representing a worsening of 175 million euros. Specifically, 2012 includes a total impairment loss of Non-Current Assets and Goodwill of 157 million euros, established following the impairment test process and also taking account of the prospective sale of the investee La7 S.r.l.. In detail, the impairment loss relating to solely Goodwill is 105 million euros (57 million euros of impairment loss in 2011). Excluding the previously mentioned income of 21 million euros from the results for 2011 and the aforementioned impairment loss on goodwill and other, minor, non organic items from the results for 2012, the organic reduction in EBIT amounts to 56 million euros.

Sale of La7 S.r.l.

On March 4, 2013, the Board of Directors of Telecom Italia Media S.p.A., a subsidiary of Telecom Italia S.p.A., voted to grant a mandate to finalize the agreement for the sale of the entire investment in La7 S.r.l. to Cairo Communication S.p.A., excluding the 51% of MTV Italia S.r.l. On March 6, 2013, Telecom Italia Media and Cairo Communication signed an agreement for the sale of 100% of La7 S.r.l..

Under the agreements reached, Telecom Italia Media S.p.A. will receive a sale consideration of 1 million euros. La7 S.r.l. will be recapitalized for a sufficient amount to ensure a positive net financial position, at the transfer date, of no less than 88 million euros. This recapitalization will also contribute to reaching the agreed level of equity of 138 million euros at the transfer date.

As a result of the transaction, Telecom Italia S.p.A. has waived intragroup financial receivables, due from Telecom Italia Media S.p.A., for a total amount of 100 million euros.

According to the agreements, a long-term transmission capacity supply contract will also be entered into between La7 S.r.l. and Telecom Italia Media Broadcasting S.r.l..

This sale allows the Telecom Italia Group to terminate its financial support of La7 S.r.l. while keeping the network operator Telecom Italia Media Broadcasting S.r.l. within its scope of operations.

The finalization of the sale is subject to the authorizations required under the applicable regulations.

Olivetti

On January 1, 2012, the contact center activities and resources of Advalso S.p.A. were sold to Telecontact Center S.p.A. (a subsidiary of Telecom Italia Domestic Business Unit), as part of a project to bring all Telecom Italia Group call center operations under centralized management.

In addition, on June 13, 2012 the shareholders of the subsidiary Olivetti i-Jet S.p.A. voted to place the company in liquidation.

(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	280	343	(63)	(18.4)	(13.3)
EBITDA	(57)	(36)	(21)	(58.3)	27.8
EBITDA margin	*(20.4)*	*(10.5)*			
EBIT	(65)	(43)	(22)	(51.2)	27.9
EBIT margin	*(23.2)*	*(12.5)*			
Headcount at year-end (number)	*778*	1,075	(297)	(27.6)	

Revenues

Revenues for 2012 amount to 280 million euros, down 63 million euros compared to 2011. Organic revenues, calculated on a comparable scope of consolidation, to take account of the above-mentioned transfer to Telecontact Center S.p.A. (21 million euros in 2011), and net of a favorable exchange rate difference of 1 million euros, are down 43 million euros (-13.3%). If the revenues under the agreements with the Parent, Telecom Italia S.p.A., regulating brands and patents are also excluded, the reduction is 38 million euros (-11.8%).

The decrease in revenues is largely related to: lower sales of 21 million euros in the indirect channel in Italy (SME and professional offices), the channel most exposed to the current market crisis; lower sales of 10 million euros in the International and Latin America areas, due to the cancellation of product supply contracts with unsatisfactory margins; and lower product supply contracts with Telecom Italia of 4 million euros. The remaining decline in revenues was due to lower sales of industrial applications resulting from the winding up of Olivetti I-Jet S.p.A..

EBITDA

EBITDA is a negative 57 million euros, 21 million euros lower than 2011. The result is affected by provision charges for restructuring expenses and other winding up expenses totaling 31 million euros, as a result of the start of the liquidation of Olivetti I-Jet S.p.A, in accordance with the process of repositioning the business unit s activities, in line with the shift towards a paperless world and mobile applications. Excluding these expenses, the organic change in EBITDA is a positive 10 million euros (+27.8%), thanks to both the improved percentage margin and the sizable reduction in operating costs (lower overheads and labor costs). These two factors more than offset the lower absolute margins resulting from the decline in sales.

EBIT

EBIT is a negative 65 million euros, a decrease of 22 million euros from 2011, when it stood at a negative 43 million euros. The result was affected, in addition to the charges and provisions mentioned above in relation to the EBITDA, by impairment losses on assets of 3 million euros related to the winding-up Olivetti I-Jet S.p.A.. Excluding these items, organic EBIT is up 12 million euros (+27.9%) to -31 million euros in 2012 from -43 million euros in 2011.

Main Commercial Developments of the Business Units of the Group

Domestic

Consumer Mobile

The 2012 sales campaign at TIM focused on the acquisition of new lines through Mobile Number Portability (MNP). A new MNP promotion was launched in the first quarter of the year, giving new customers the chance to select a rate plan of their choosing (Raddoppio Ricariche , with a two-year discount on the subscription to one or two options). In the fourth quarter, TIM launched the new range of TUTTO A SECONDI rate plans, designed to satisfy all customer needs, for both new and existing TIM customers.

For the high-value segment, in the first half of 2012 TIM launched the new entry-level Tutto Compreso 250 rate plan, along with new Internet+SMS options. The Tutto Compreso range was completely overhauled in the second half of the year, and TIM launched a number of special add-ons for the range, including TIM Cloud and the SEMPRE NUOVO deal (option of changing smartphone every 12 months). At Christmas, in response to the unlimited call minutes and SMS offers promoted by major competitors, TIM launched the Tutto Compreso Unlimited rate plan, offering unlimited call minutes and SMS messages, Internet traffic, roaming and VAS content such football, music, news and cloud services.

Campaign efforts continued to be targeted throughout the year at Young consumers, through the increase of TIM s presence in key segments for the youth market (music, cinema and sport), diversified media campaigns, the launch of new services such as TIM Cloud (cloud space to store and share content with friends) and the expansion of the Tim Young offer range (Limited Edition, Summer Edition, TIM Young XL).

For the Ethnic segment, TIM stepped up its campaign at the beginning of the year with the launch of new TIM Card Etniche deals, offering even more competitive rate plans for the main ethnic groups living in Italy (Romanians, Albanians and Moroccans). In the second quarter, the TIM Community option was launched for online traffic, while in the third quarter, the TIM International add-on was introduced for all mass market profiles, offering discounted rates for calls to all countries of origin.

In an effort to boost market share in certain geographic segments, TIM introduced a new campaign approach involving targeted deals designed to meet the needs of local consumers (launched in Apulia, followed by Veneto, Liguria and Sardinia).

The year 2012 was marked by the development of Ultra Internet services on 42 Mbps HSPA+ technology and on the new 4G-LTE network. Launched in November, the new Ultra Internet 4G LTE service enables connection speeds up to ten times faster than the 14.4 Mbps HSPA network, and more than double the speed offered by 42 Mbps HSPA technology. 4G rate plans for Internet sticks and tablets were initially launched in four cities (Rome, Milan, Turin and Naples) and then extended to serve a total of 21 cities and 9 tourist spots by the end of 2012. The 4G LTE rate plans are targeted at the premium segment and feature high data volumes, excellent service quality in terms of network performance and exclusive content and services.

The Small Screen segment (Internet via smartphone) took off in a major way in 2012, with sharp growth in users driven by the spread of smartphones a segment that TIM continues to lead in terms of sales and by the competitiveness and simplicity of the offer range (TIMxSmartphone).

The TIM range was enhanced over the year with brand new content for the Cubovision, Cubomusica and Cubolibri deals, available by subscription, by service card, in packs and bundled together with other rate plans. Media rights were also purchased from Lega Calcio to broadcast live league games, goal highlights and match highlights on smartphones/tablets, available for Android devices and iPhones as of January 2013.

In June 2012, TIM released its new website, optimized for tablet and smartphone viewing. The new website features a new graphics and page structure, enhancing the usability of the site s contents.

Consumer Fixed-line

The 2012 sales campaign focused on winning back former customers and retaining existing ones. The campaign was spearheaded by the push on InternetSenzaLimiti and TuttoSenzaLimiti rate plans, enhanced by a loyalty promotion which waives the home line activation fee for new Telecom Italia customers that stay with the company for at least 24 months. In February, new, lower prices on international calls were added to bundled offers. In the second quarter, winbacks were targeted with the InternetSenzaLimiti plus Cubovision bundled offer, co-marketed with Samsung and LG Smart TVs. Convergent promotions were also introduced over the year, with TIM Internet Start launched in July and Internet Ovunque in October. In December bundled offers were pushed with a special promotion waiving the ADSL activation fee.

Another focus of the sales campaign was to raise the value of customers, in terms of number. Efforts were spearheaded by a drive on the Superinternet option, begun at the start of the year and designed to meet growing demand for higher broadband download and, especially, upload speeds, and to position Telecom Italia as a leading player in cutting-edge residential services. Alongside this, the new Internet Play option was introduced, which reduces connection latency (ping time) by up to 40 per cent, guaranteeing faster response times and enhanced performance for online multiplayer games.

On December 5, a new range of Ultra Internet Fibra Ottica plans was launched in three of the seven cities authorized, offering customers a broadband speed of 30 Mbps thanks to the next-generation Fiber-To-The-Cabinet (FTTCab) network. Based on FTTCab and VDSL technology, the deals guarantee a data transmission speed nearing the nominal speed.

Telecom Italia pushed ahead in 2012 with plans to simplify pricing structures for voice calls, introducing as of July 1:

- a single national rate for local and national fixed-fixed calls, with no differentiation by time frame or distance of calls;

- single fixed-mobile calling rate, with no distinction made between calls to different mobile operators, anytime of day.

With a view to improving service quality for customers, as of December, Telecom Italia bills have been made even simpler and easier to read, with a new graphic arrangement and clearer statement of cost items.

In 2012, a new Pay TV Cubovision deal was launched, offering over 25 thematic channels and hundreds of on-demand features at a competitive monthly subscription cost. Cubovision content can be accessed by computer, by a next-generation Samsung or LG Smart TV, or by an ordinary television set connected to a Cubovision decoder. The Cubovision deal is being promoted as an anycast subscription formula for viewing at home by computer or television, or viewing on the move via smartphone and tablet. In the second half of the year, new channels were launched, as well as a bundled offer of Cubovision and a Notebook computer.

To step up the push on the Tutto Senza Limiti + Cubomusica deal, a promotion was launched in December offering a six-month subscription free of charge with all new Internet Senza Limiti activations. Cubomusica features all the latest music by Italian and international artists across all musical genres, and a wide selection of playlists by well-known artists and DJs, broadcast as streaming media which users can access without restriction via their computers.

Business

The range of business offers was completely renewed over the course of the year. The convergent range was enhanced with two new innovative deals. Offerta Linea Valore+ is the first fee free fixed-line deal inclusive of all calls to fixed-line numbers and calls to TIM mobile numbers. The Mobile TIM SuMisura+ package includes unrestricted voice call and data traffic bundles, offering unlimited call time to fixed-line numbers. Customers can also choose between a smartphone or a package of added voice calling minutes or SMS messages. Also in the year, the Insieme rate plan was launched to reward customers who choose to activate a new fixed line by installing a new line or transferring from another operator together with at least one mobile line. The range of broadband deals was enhanced for the fixed-line network with the introduction of Super Internet, offering flat-rate ADSL access (20 Mbps download speed/1 Mbps upload speed) with guaranteed minimum bandwidth, a static IP address and WiFi router included. For the mobile network, the Naviga Tablet deal was launched, targeted at customers seeking an all-inclusive product + data package.

A new rate plan for mid-to-high value multi-access customers in the fixed-line segment was introduced during the year, called Azienda Valore. The flexible plan offers special deals on voice calls to fixed-line numbers and on traffic to mobile numbers operated by other mobile operators. Likewise, in the mobile segment, the Soluzione Clienti Azienda rate plan was introduced, which provides substantial benefits on intercom traffic and bundled profiles.

Towards the end of the year the Mobile SoHo rate plan range was enhanced with the launch of TIM Senza Problemi. The new deal is Italy s first top-up plan for business customers to include unlimited national calls and SMS messages towards all operators and ultra-Internet connection, as well as a next-generation smartphone with all risks service and assistance, and a free new handset after 24 months.

The campaign to acquire new customers involved the coordinated launch of a series of special deals targeted at both fixed-line and mobile customers. In the fourth quarter, an important customer care initiative was launched for both new and legacy high-value customers with SoHo and Small Enterprise plans. The targeting of the new unlimited Senza Problemi rate plan at these customers combined with cross-selling and up-selling initiatives is designed to consolidated the relationship with these key customers, lengthening their life cycle and share of wallet with Telecom Italia.

The agreement signed with Microsoft Italia on April 4 is of special importance for the development of innovative business solutions. Its aim is to encourage digital development in Italian small and medium-size enterprises through the spread of computer solutions based on cloud computing. The agreement, giving the go-ahead to the new Prospettiva Impresa project, involves the creation of a joint sales channel within the ITIS (Information Technology Impresa Semplice) partner network, dedicated by Telecom Italia to small and medium-size enterprises. In September, an agreement was entered into with Unioncamere (Italian federation of chambers of commerce) to promote a digital innovation culture among Italian small and medium-size enterprises and to maximize the spread of infrastructure and broadband and ultrabroadband services throughout the country.

Top Clients & Public Sector

In 2012, the Top Clients & Public Sector division gave its internal organization an overhaul, restructuring its business on the basis of customer and market criteria. Customers were reclassified on the basis of their potential ICT expenditure, splitting the reference market into four new segments, TOP, STRATEGIC, LARGE and MEDIUM ENTERPRISE, each with its own Go-to-Market and Customer Care model. The range of ICT, mobile and fixed-line offers was enhanced with new solutions targeting each of the new customer segments, with innovative services introduced to complement the Nuvola Italiana range of cloud services. The aim of the initiative was to defend Telecom Italia s market leadership of the segment and counter competitor initiatives.

In the ICT segment, as a Cloud Service Broker Telecom Italia has developed a new network of partners able to integrate their own solutions with Nuvola Italiana ICT services. The strategy involves the direct provision of infrastructure as a service (IaaS), with partnerships encouraged for the delivery of applications.

Also for the ICT segment, the new Nuvola IT Self Data Center cloud service was designed and launched for customers to create their own virtual data centers. The service gives customers flexibility in building their own IT architectures and solutions with the use of virtual machines. Nuvola IT Sinfonia is another cloud computing service for the ICT segment, designed specially for businesses which need to outsource the creation and management of their geographical WAN network as well as its future development. Medium Enterprises can also add local Nuvola ItDataspace or Nuvola ItIntoucHD cloud services to the package. A number of new security services were also launched during the year for the Nuvola Italiana range. Nuvola It Area Protection enables customers to make the most of Telecom Italia s IP connectivity services, protect company networks from any potential external attacks and create secure VPNs with other company offices and remote users. Nuvola ItDDoS is designed to mitigate the impact of Distributed Denial of Service attacks targeted at saturating the customer s online services. The network-based service permits malicious traffic to be stopped before its reaches the customer s systems, while preserving Internet access. Finally, Nuvola It Mail Protection is a ready-to-use service implemented in data centers, designed to protect company mail servers from computer viruses and spam.

Cloud computing services launched in 2012 for the mobile segment included: Nuvola It Mobile Device Management, targeted at medium-high value customers. The service enables mobile handsets to be managed/configured remotely, thereby limiting or eliminating the need for the handset user to set up the phone; Nuvola ItOne company, dedicated to Top customers, offering a range of bundled minute and SMS rate plans; TIM Company NET is targeted at financial salespeople and agents, combining the potential of top-up plans with all-inclusive solutions. Finally, TIM Senza Problemi is the first corporate rate plan to bundle unlimited voice calls and SMS messages, data traffic, and roaming at a connection speed of up to 42.2 Mbps.

In the fixed-line segment, the Azienda Tutto Compreso range was enhanced with the new TrunkSIP package, an entry-level VoIP deal that is flexible in terms of both price and features. The package delivers phone and Internet access via a single connection to the customer s traditional switchboard, with voice services provided through the broadband connection. The new Voce Base Senza Confini deal lets customers who occasionally travel abroad make calls at discounted roaming rates, without fixed monthly charges.

Brazil

TIM pressed ahead in 2012 with innovation plans, introducing technological developments and covering increasingly larger swathes of the country.

In an effort to reinforce its image in Brazil, in the fourth quarter of 2012 TIM launched the Trem Azul (blue train) campaign, in which the train symbolizes the company and its commitment to promoting telecommunications and Internet access by helping people aboard.

TIM s commitment to full transparency was given concrete form in the release of a new website for all its stakeholders, outlining all the company s customer service initiatives and developments in the network, with constant updates showing its geographical coverage. A detailed network plan and the commitments undertaken with the Brazilian Telecommunications Agency (Anatel) are also available on the website.

For the fifth consecutive year, the Sao Paulo Stock Exchange (Bovespa) has included TIM in its Corporate Sustainability Index (ISE), in recognition of the company s ongoing commitment to sustainable development, environmental stewardship, corporate social responsibility and corporate governance.

For the Consumer segment, in November TIM launched the Infinity Day promotion, which transforms the pay per call concept into a pay per day deal (0.50 reais/day for local calls, plus an additional 0.50 reais/day for long-distance calls to TIM numbers). The same week it was launched, Anatel issued an injunction suspending the promotion; the injunction was finally lifted on January 13, 2013.

TIM also launched a new option for the Liberty Controle rate plan called Liberty Controle Express , reserved to customers who accept direct debit billing to their credit card. The option comes with all the regular features of the Liberty Controle deal, including unlimited on-net calls, both local and long-distance, using the code 41, and a credit limit for off-net calls.

In December, TIM reached the milestone of 70 million customers. To celebrate, a prize was given to the seventy-millionth customer at a special event in Rio de Janeiro. The winner was given a free trip to Las Vegas for two people, plus a smartphone and one year s free subscription to the TIM Liberty+ 400 rate plan (unlimited on-net calls and 400 minutes/month of off-net calls).

As concerns phone offers, TIM continued its strategy of promoting the purchase and spread of smartphones. New handset models were included in the range in the fourth quarter of 2012, including the affordably priced Samsung Galaxy Pocket (starting from 349 reais) and the Motorola RAZR™ HD, the first smartphone developed specially for the 4G network, and assembled entirely in Brazil (premium range phone, priced at 1,699 reais).

In December, TIM organized a whole series of events for the launch of the new iPhone 5, with lotteries and special discounts for customers registered on the website. The events were a regular sellout at all the nine stores hosting them. The new iPhone 5 16 GB has been included in the range at a starting price of 249 reais/month, of which 200 reais is the monthly installment on the device (for 12 months) and 49 reais/month is for the Liberty+ 50 plan.

At the 2012 Futurecom trade show, TIM announced a new partnership with Telebrás to expand the National Broadband Program (PNBL). Under the agreement, infrastructure will be shared for the creation of a high-speed broadband network in the North and Northeast regions of Brazil.

In the home broadband segment, TIM is stepping up the roll-out of the Live TIM service, now available also in Duque de Caxias - Rio de Janeiro. Live TIM earned TIM the prestigious Entrepreneurial Company of the Year award for the Latin American telecommunications sector, an award sponsored by the consultancy Frost & Sullivan.

In the fourth quarter of 2012, TIM opened additional new proprietary stores, raising the number to a total of 131. The aim of the store drive is to increase the postpaid customer base. The company also launched a new training program for the sales force, focused on providing a quality, interactive and innovative service.

On the corporate social responsibility front, TIM sponsored urban works and a series of workshops with international artists in the Paraisópolis community, located south of Sao Paulo.

Argentina

Fixed-line telephony and broadband services

In the fixed-line segment, residential voice revenues showed moderate growth in 2012, driven primarily by the rise in sales of monthly rate plans and supplementary services. The focus was placed on satisfying demand for access services while stemming the fall in MOU (minutes of use), due to the substitution effect of growing mobile traffic, and increasing average revenue billed per user (ARBU).

In the VAS Voice segment, efforts continued to be focused in 2012 on satisfying customer demand and increasing ARBU on access lines by pushing packages and maintenance services.

The range of Aladino handsets was expanded in 2012 with the introduction of the new Aladino 420 and new premium-range fax machines.

The strength of the Arnet brand lies in the effectiveness of communication campaigns and its differentiated range of rate plans, priced competitively for different segments and offering varying connection speeds. In 2012, thanks to a smart pricing strategy, average revenue per user (ARPU) increased.

Mobile telephony services

Mobile Number Portability was introduced in Argentina in March 2012. As a result, sales campaigns during the year for products and services were focused specifically on customer retention.

Personal continued to develop the Personal Black platform targeted at high-value customers. New rate plans were added to the range, offering the chance to use unused call minutes the following month and launching new innovative handsets. Personal also continued the strategy of offering top-up benefits and exclusive perks for Club Personal members. In addition, the Grupo Familiar option was launched for mobile lines belonging to a single family household, enabling family members to call and send each other SMS messages for free. Finally, Personal kept up its winning unlimited Internet for the day deal , which has made Personal a leader in the segment.

The 2012 sales campaign for Núcleo focused on voice, SMS and data packages for the prepaid segment, and flexible rate plans for the postpaid segment. Núcleo also pushed a number of customer retention initiatives for high-value customers, mainly involving campaigns to replace handsets. In the fourth quarter of 2012, following the introduction of Mobile Number Portability in Paraguay as of November 30, Núcleo focused its efforts on informing the market of the benefits of portability.

Olivetti

At the SMAU 2012 exhibition, Olivetti announced it would be integrating HI Credits, the remote mobile phone payment solution developed by Reply, into Nettuna@ 3000, Olivetti s integrated cash register, designed to meet the needs of retail stores and eateries. The new system will enable users to make totally secure payments from their own smartphones.

In the fourth quarter of 2012, Olivetti was awarded the first tenders assigned by the Sardinia Region for the supply of approximately 10,000 Interactive Multimedia Board (IMB) kits to the region s primary and secondary schools.

In the banking sector, graphometric signature projects were completed for the Iside and Phoenix platforms, and a contract was won with Carige for the supply of this technology. Again in the banking and insurance sector, a contract was won with Banca Generali for a mobile paperless banking project.

In the utilities and services sector, the customer base adopting Olivetti signature pads for acquiring graphometric signatures from customers on energy contracts was broadened to include, among others, GDF Suez Optima. In addition, Olivetti s mobile process automation solutions were adopted during the year by the Italian Interior Ministry and the Emilia Romagna region s 118 emergency service.

Internationally, Olivetti installed approximately 15,000 branch systems for the China Construction Bank, as part of a bigger tender won by Olivetti in China in 2012 for the supply of around 30,000 systems. Finally, in Portugal, the Caixa General de Depositos, the country s biggest bank, chose Olivetti for a pilot paperless banking project involving graphometric signature pads in branches.

Principal changes in the regulatory framework

Domestic

Wholesale fixed 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 Wholesale Line Rental) and the calculation of the Weighted Average Cost of Capital (WACC), both applicable for the period May 1, 2010 to December 31, 2012. The WACC applicable to Telecom Italia s wholesale access services was set at 9.36%.

In particular, for the unbundling charge (Local Loop Unbundling LLU), AGCom set the following amounts: 8.70 euros per month as of May 1, 2010; 9.02 euros per month as of January 1, 2011; and 9.28 euros per month as of January 1, 2012.

As concerns Wholesale Line Rental (WLR), offered only from Telecom Italia telephone exchanges which are not open to unbundled services (LLU), AGCom s outgoing board adopted Decision 59/12/CIR approving the 2012 Reference Offer with the exception of the WLR rate. Instead, by Decision 284/12/CONS, a public consultation was called over a new WLR rate of 11.90 euros per month applicable as of June 1, 2012, to replace the rate of 12.88 euros per month set by Decision 578/10/CONS for all of 2012. The consultation procedure was closed by AGCom in December 2012 by Decision 643/12/CONS, which set the monthly WLR rate at 11.70 euros per month for the period June 1 to December 31, 2012. Telecom Italia has challenged Decisions 59/12/CIR and 284/12/CONS with the Administrative Court (TAR) of Lazio, and is looking into grounds for challenging Decision 643/12/CONS. Telecom Italia holds that the decisions are illegitimate as they impose a change in the WLR rate for 2012 that was not determined on the basis of a market analysis procedure; under European and national legislation, obligations on undertakings may only be amended on the basis of a market analysis (article 45 of the Electronic Communications Code, as per article 16 of the Framework Directive).

On September 4, 2012, AGCom approved Decision 390/12/CONS initiating a third round of analyses of the wholesale and retail fixed access markets. The analyses are expected to set new network caps for wholesale access services to the copper network for the period 2013 2015. The AGCom decision cites article 47(2-quater) of Law No. 35 of April 4, 2012, by which two specific statutory obligations were imposed on Telecom Italia, namely the unbundling of costs for accessory maintenance services in the supply of LLU lines, and the sourcing of those services from both internal and external providers. The statutory obligations are clearly in breach of European legislation, under which obligations on undertakings with Significant Market Power (SMP) can only be introduced by AGCom. As a result, on July 14, 2012, the European Commission brought an infringement proceeding against the Italian government, in which the Commission specified that the Italian article 47 (2-quater) breaches the provisions of directives in the sector (specifically, Directive 2009/140/EC) concerning the exclusive powers and independence of the regulatory authority and the imposition of statutory obligations outside the procedures set forth by European directives.

Finally, on December 20, 2012, AGCom called two public consultations, one concerning WLR service rates for 2013 (Decision 141/12/CIR), and the other concerning bitstream service rates for 2013 (Decision 642/12/CONS). By doing so, AGCom anticipated the findings of the third round of analyses of wholesale and retail fixed access markets, initiated by Decision 390/12/CONS. Specifically, for the monthly WLR rate, AGCom has proposed maintaining the 2012 rate, on the basis of reductions in some service components, such as, for example, the activation charge. For bitstream services, AGCom has proposed reducing the naked access charge of 11.71 euros per month to 10.17 euros per month, and the shared access charge of 7.79 euros per month to 7.33 euros per month.

Wholesale origination, termination and call transit

On April 28, 2011, AGCom approved Decision 229/11/CONS requiring that, as of January 1, 2012, the price of TDM termination services on the fixed networks of Telecom Italia and other licensed operators should be set on a symmetric basis, at a rate equal to Telecom Italia s charge at the local Urban Group Stage (SGU) telephone exchange. Decision 229/11/CONS also established that, as of 2013, a single symmetric rate will only apply to IP termination for Telecom Italia and other fixed-line operators. As specifically concerns TDM termination services, on September 4, 2012 AGCom adopted Decision 92/12/CIR approving the Telecom Italia 2012 Reference offer and setting a price of 0.272 euro cents per minute for local SGU level termination; the price set was 10 per cent lower than the 2011 price. In that same decision, AGCom approved the 2012 price for district SGT level termination for Telecom Italia, reducing it to 0.361 euro cents per minute (versus 0.57 euro cents per minute in 2011). Telecom Italia call origination prices are now the same as its termination service prices.

On September 26, 2012, AGCom adopted Decision 421/12/CONS calling a public consultation procedure on the 2012 TDM termination rate for the fixed networks of other licensed operators, set on a symmetrical basis at 0.272 euro cents per minute, equal to the price charged by Telecom Italia at the local SGU level. The proposal is currently being examined by the European Commission.

As concerns fixed network IP interconnection services, on December 20, 2012 AGCom submitted a proposal to the European Commission on a framework for setting IP service prices for 2013 2015 on termination services (imposed on Telecom Italia as well as other licensed operators) and origination services. For the first time, at the request of Telecom Italia, origination prices will be set at a markedly higher rate than termination prices (in 2012 they were set at equivalent rates).

(eurocents/minute)	2012	2013	2014	2015
IP termination	0.272	0.206	0.127	0.043
IP origination	0.272	0.245	0.198	0.140

Finally, AGCom adopted Decision 12/13/CONS initiating procedures to restore, for the year 2013, price setting for TDM interconnection services. The segment had been deregulated under Decision 229/11/CONS, however technical problems have significantly delayed migration towards IP interconnection.

New Generation Networks

To complete the regulatory framework for access to next generation networks set forth in its Decision 1/12/CONS of January 18, 2012, in February 2012 AGCom initiated three procedures concerning: 1) the cost model for the determination of prices for wholesale services received and supplied and definition of the areas of competition for the geographic differentiation of bitstream service selling prices; 2) evaluation of the imposition on all operators of obligations for symmetrical access to vertical fiber cabling and to the sections leading to the buildings; 3) evaluation of possible amendments to the regulation of the copper wire sub loop unbundling service in the light of the possible introduction of vectoring technology on FTTCab-VDSL accesses. On March 19, 2012, in compliance with the provisions of Decision 1/12/CONS, Telecom Italia released its Reference Offer for the year 2012 for wholesale NGAN access services (local installation infrastructures, ducts along the access network, primary and secondary fiber optics, terminating segments in fiber optics, end-to-end access services and bitstream FTTCab and FTTH services).

AGCom called three corresponding public consultations on the NGAN Reference Offer, by Decision 95/12/CIR for FTTC and FTTH bitstream services, Decision 105/12/CIR for NGAN infrastructure services (local installation infrastructures, ducts along the access network, primary and secondary fiber optics, terminating segments in fiber optics), and Decision 114/12/CIR for NGAN end-to-end access services. All three consultations have been closed, however final decisions on access prices have yet to be released.

Pending completion of the regulatory framework for next generation access services, on November 2, 2012, AGCom approved the Telecom Italia retail offer prepared in compliance with Decision 61/11/CONS. The decision thus authorizes Telecom Italia to sell NGAN retail services, as of December 5, 2012, to a maximum of 40,000 customers, only in cities where other licensed operators already offer NGAN retail services or operate their own infrastructures (Rome, Milan, Turin, Genoa, Bologna, Naples and Bari).

Retail fixed markets

Local, national and fixed-to-mobile calls and telephone line rental

As of January 1, 2013, Telecom Italia introduced a new simplified pricing schedule for its General Offer to Business customers. Specifically, the rate maneuver adopted can be described as follows:

- Introduction of a single calling rate for all national voice calls (local and long distance);
- Lower rates for fixed-to-mobile calls;
- Change in the call set-up charge.

Business General Offer	Prices in euro cents (VAT excluded)			
National and fixed-to-mobile calls	Prices applied until December 31, 2012		Prices as of January 1, 2013	
	Set-up charge	Per minute charge	Set-up charge	Per minute charge
Local		1.00		0.00
Long-distance	10.00	7.00	20.00	
Fixed-to-mobile		8.00		3.00

Calls are charged by the second.

Beginning April 1, 2013, Telecom Italia will introduce further price simplifications on its General Offer for Consumers. Specifically, the rate maneuver adopted can be described as follows:

- Introduction of a single calling rate for all national voice calls (local and long distance) and fixed-to-mobile traffic;
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Change in the call set-up charge;

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Introduction of a 50 per cent discount on national voice calls lasting more than three hours (calls charged in advance by the minute);

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Inflation-indexing of the basic telephone line rental charge, raising the amount from 16.64 euros per month, VAT included, to 17.40 euros per month, VAT included.

Consumer General Offer	Prices in euro cents (21% VAT included)			
National and fixed-to-mobile calls	Prices applied until March 31, 2013		Prices as of April 1, 2013	
	Set-up charge	Per minute charge	Set-up charge	Per minute charge
National calls (local and long distance)	7.94	*1.90*	5.00	5.00
Fixed-to-mobile		*9.90*		

Calls charged in advance by 60 seconds.

Also as of April 1, 2013, Telecom Italia will be introducing a single cancellation fee on contracts terminated both before and after 12 months. The fee will be applicable to all Consumer and Business customers, where a contract is terminated for reasons not attributable to Telecom Italia. The single cancellation fee of 34.90 euros, including VAT, is lower than both the current fee of 48.40 euros, including VAT, for the cancellation of either the phone or ADSL line, and the fee of 60.50 euros, including VAT, for the cancellation of both lines.

Wholesale mobile markets

Termination on the mobile network

In compliance with Lazio Administrative Court (TAR) ruling 8381 of October 10, 2012 and rulings 10263 and 10265 of December 7, 2012, which annulled AGCom Decision 621/11/CONS with regard to the price asymmetry approved for the operator H3G until June 30, 2013, on January 10, 2013 AGCom adopted Decision 11/13/CONS justifying the grounds for such price asymmetry and reinstating it until June 30, 2013. Telecom Italia is currently assessing whether to challenge Decision 11/13/CONS.

SMS termination rates

On September 13, 2012, AGCom approved Decision 420/12/CONS calling a public consultation on the findings of a market analysis on SMS termination, a segment that is not designated a relevant market by the European Commission. At present, SMS termination prices are not regulated and mobile network operators set their own prices on a commercial basis, applying the principle of reciprocity (or symmetry). In the draft provisions put to public consultation, AGCom concludes that the SMS termination market does not require *ex ante* regulation, as it is effectively competitive. The proposal is currently being examined by the European Commission.

International roaming

On May 30, 2012, the European Commission approved the new Roaming III regulation that came into effect on July 1, 2012.

The Regulation is 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:

	Roaming **II**		Roaming III	
(euros)	July 1, 2011	July 1, 2012	July 1, 2013	July 1, 2014
Wholesale Voice	0.18	0.14	0.10	0.05
Retail outgoing Voice	0.35	0.29	0.24	0.19
Retail incoming Voice	0.11	0.08	0.07	0.05
Wholesale SMS	0.04	0.03	0.02	0.02
Retail SMS	0.11	0.09	0.08	0.06
Wholesale Data	0.50 /Mb	0.25 /Mb	0.15 /Mb	0.05 /Mb
Retail Data		0.70 /Mb	0.45 /Mb	0.20 /Mb

(b)

the obligation, for mobile network operators, to provide access to wholesale roaming services at regulated prices;

(c)

the introduction, as of 2014, of a new structural measure under which customers have the possibility of purchasing roaming services from a supplier other than their 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 by the BEREC, not later than January 1, 2013.

Brazil

Suspension of the sale of new SIM cards in some areas of Brazil

On July 18, 2012, Anatel, the Brazilian telecommunications regulator, after adopting a new method for measuring quality, issued a ruling which, among other things, ordered Tim Celular (a subsidiary of the Tim Brasil group) to suspend the sale of new SIM cards in 18 Brazilian states and in the Federal District of Brasilia starting from July 23, 2012. The petition to suspend the measure filed by Tim Celular was denied and on July 24, 2012 Tim Celular presented Anatel with a specific action plan for all the States outlining the individual steps that will be taken to guarantee better service and network quality.

On August 2, 2012, Anatel approved the action plan presented by Tim Celular, ordering an immediate lifting of the suspension of sales together with steps to constantly and continuously monitor the execution of the action plan.

Auction for the user rights to mobile telephony frequencies

In June 2012, Tim Celular made a bid for the acquisition of licenses to fourth-generation (4G) mobile telephony frequency bands.

On June 12 and 13, 2012, the Brazilian regulator, Anatel, announced the results of the auction, awarding Tim Celular licenses to one national 10+10MHz band and six regional 10+10MHz bands, as well as a 7+7MHz band in the 450MHz range in four states. The total value of the investment is 382 million reais and allows the Tim Brasil group to use the new frequencies for 15 years (renewable for another 15 years).

On October 16, 2012, Tim Celular signed the implementing agreement for the use of radio frequencies in the 2.5GHz range and the provision of SMP and SCM services, together with the other mobile telephone operators which in June were awarded 4G licenses. At the same time, Tim Celular paid a deposit of 36.5 million reais on the licenses, with the remainder due by June 5, 2013.

Argentina

Auction for the user rights to mobile telephony frequencies

With regard to the public auction called by the *Secretaría de Comunicaciones* (SC) to reassign frequency bands in the 850MHz 1900MHz range returned by Telefónica Móviles de Argentina S.A., on September 5, 2012, SC notified Telecom Personal of its Resolution SC 71/2012 canceling, as contemplated in the auction regulations, the auction called by Resolution SC 57/2011, for reasons of expediency, merit and convenience of the State. In addition, the *Secretaría de Comunicaciones* was instructed by the relevant minister to identify the technical and legal mechanisms and instruments required to assign the frequencies formerly to be auctioned to the state-owned Empresa Argentina de Soluciones Satelitales S.A. (ARSAT), and to prepare a business plan for the use of the frequencies in question, either directly or through third parties.

In December 2012:

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Decree 2426/12 licensed the frequencies formerly to be auctioned to ARSAT;

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the federal government, by Decree 2427/12, declared the development, implementation and operation of a Federal Wireless Network to be a matter of public interest, and authorized the Ministry of Federal Planning, Public Investments and Services, which controls ARSAT, to take all the necessary steps to implement just such a network;

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ARSAT was licensed to operate without restriction as a provider of telecommunications services of all kinds.

Telecom Personal management is presently assessing the various implications of Resolution 71/2012 and Decree 2426/2012 for the company. It is also working on identifying the steps it will need to take to be able to continue providing a mobile telephony service of the highest quality.

Media

Digital frequencies

In 2009, AGCom adopted Decision 181/09/CONS, enacted in article 45 of Law 88/2009, setting forth criteria for the full digital switchover of terrestrial television networks. On the basis of the measure, the Ministry for Economic Development allocated temporary licenses to the digital frequencies. The measure was necessary due to infringement proceeding 2005/5086 brought by the European Commission against Italy, which found that problems in the Italian television sector and the monopolization of frequencies by RAI and Mediaset needed to be redressed.

In an effort to overcome the European Commission s findings, in 2010 AGCom adopted Decision 497/10/CONS providing for the allocation of licenses to additional digital dividend frequencies free of charge, in what came to be known as the beauty contest. With its publication in Italy s Official Gazette on April 28, 2012, Law 44/12 repealed and annulled the beauty contest, replacing it with a competitive bid auction according to new criteria to be set forth by AGCom.

TIMB, Telecom Italia Media Group s digital terrestrial broadcaster, holds licenses to four national networks, two of which are analog (channels LA7 and MTV) and two are digital (MBONE and TIMB1) and as such its interests were damaged in 2009 when it was awarded only three DVB-T digital frequencies (UHF CH 47, UHF CH 48 and UHF CH 60).

Accordingly, in 2009 the Group challenged the ministerial decision awarding the digital frequencies before the Administrative Court (TAR) of Lazio (general docket 9621/09), calling on the court, as it main application, to:

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annul the ministerial decision assigning only three frequencies, which were also of lower quality compared to those awarded to RAI and Mediaset, and establish TIMB s entitlement to the awarding of four frequencies;

in the alternative:

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award compensation for damages deriving from the failure to award a fourth network (calculated on the market value of a multiplex, equal to at least 240,000,000 euros) and from the delay in its awarding (1,740,000 euros per Mbps per year).

As part of the same case, the Group also challenged the allocation of UHF CH 60, given that it cannot guarantee the same transmission quality as the other frequencies awarded to other national broadcasters due to interference suffered by the channel from LTE-800 mobile services (former UHF television channels 61 69) and due to the lack of international coordination with Malta, limiting the channel s use in Sicily.

The hearing for petition 9621/09 has been set for May 8, 2013.

In 2012, TIMB filed an appeal (general docket 4746/12) against the measure to release the three guarantees which had been signed in order to take part in the beauty contest. This measure, in fact, accepts the legal annulment of the beauty contest which had taken place and its replacement with an auction. As a precautionary measure, TIMB asked for:

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suspension of the effectiveness of the measure, by, if necessary, referral to the Constitutional Court or referral to the EU Court of Justice, with the consequent obligation to conclude the beauty contest procedure;

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compensation for damages for:

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costs to prepare the three applications (357,890.23 euros); cost of employees reassigned from other tasks (135,100.00 euros); investments not used because of the introduction of DVB-T2 technology (3,937,600.00 euros); investments, the value of which cannot be quantified, in HD programming on La7 and La7D;

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expectations with regard to the Business Plan which forecast EBIT for a total of 105,201,000.00 euros in ten years with binding contracts for Lot C (in which TIMB was the sole party admitted) and 171,186,000.00 euros in ten years, of which 67,258,000.00 euros with binding contracts for one of the two B Lots (from which RAI was supposed to have been excluded since it did not fulfill the requisites established by the tender procedure and the Regulation).

In chambers on July 11, 2012, the TAR of Lazio deferred the hearing on the merits of the case, which will be set once AGCom sets forth new auction criteria.

At the end of 2012, AGCom called a public consultation on the new auction rules for awarding digital dividend frequencies.

The new rules put to auction twenty-year licenses to three lots of frequencies below 700MHz (L Lots) and licenses expiring on December 31, 2017 to three lots of frequencies above 700MHz (U Lots). The starting price of the auction was not set.

TIMB has been excluded from bidding for the L Lots, due to its being recognized once again on a par with RAI and Mediaset. The restriction makes TIMB the only existing broadcaster that cannot hold twenty-year licenses to four DVB-T networks.

Through the consultation process, TIMB has requested: (i) that a market analysis be conducted to identify the effective power of each broadcaster in the sector; (ii) that suitable corrective measures be introduced to safeguard competition; (iii) that the structural nature of the five-multiplex cap be specified; (iv) that the illegitimate allocation of frequencies, that is of the DVB-H frequencies not utilized, be canceled; (v) that dominant broadcasters be excluded from bidding and that UHF CH 60 be substituted immediately by UHF CH 55 in the U Lots.

The new auction rules could be finalized by the early months of 2013, once the formal opinion of the European Commission is received.

Law 44/12 also requires AGCom to set administrative license fees for the use of television frequencies by broadcasters. The new fee system for broadcasters using digital terrestrial technology will be applied from the date of January 1, 2013 and must not involve higher expenses for the State. Up until the end of 2012, the license fee will continue to be applied on activities that were carried out under licenses granted to the former analog television broadcasters.

The law provides other measures to favor the introduction of DVB-T2 technology in television equipment and in decoders. In particular, from January 1, 2015, equipment receiving television services sold by manufacturers to retail distributors must integrate a digital tuner to receive programs using DVB-T2 technology with MPEG-4 coding or subsequent evolutions.

LCN Channel numbering

Four rulings 4658/12, 4659/12, 4660/12 and 4661/12 were published on August 31, 2012 which repeal and annul the Logical Channel Number (LCN) plan introduced by AGCom Decision 366/10/CONS, after challenges were brought by Telenorba, SKY and a number of local broadcasters. Rulings 4659/12 and 4660/12 were especially critical. The latter, in the case brought by Telenorba, ruled in favor of the local broadcaster, overturning the assignment of numbers 7 8 9 to LA7, MTV and Deejay, and finding that the channels MTV and Deejay did not qualify as general broadcasting, but were instead targeted at a young, musical audience.

On September 4, 2012, AGCom adopted measures, in accordance with the rulings, which extend the current LCN assignment until the adoption of a new numbering plan. Given the complexity of the requirements to be fulfilled, the new plan will be announced within 180 days of the start of public consultation.

The public consultation procedure was closed in mid-November 2012. A new study was then initiated by AGCom into the habits and inclinations of users. The findings of the study have yet to be released.

TIMedia holds that the new AGCom LCN plan:

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Cannot bring into question the assignment of LCN 7 to LA7, understood as seventh place following the six generalist channels of RAI and Mediaset. Ruling 4660/12 does not provide any justification for annulling LCN 7.

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Could reassign LCN 8 to MTV, as it is incorrect to consider the channel to be non-general music broadcasting, given that the general character of a broadcaster lies in the obligations and undertakings of the license holders to the former analog frequencies. The opinion survey on user habits and preferences has repeatedly confirmed that the majority of viewers prefer MTV on button 8 of their remote controls compared to all the other broadcasters.

LCN Dispute

The Council of State postponed to May 17, 2013 the hearing on the action initiated by Telenorba for implementation of the ruling that annulled the AGCom LCN Plan and the assignment of LCN 7-8-9 (Council of State Ruling 4660/12). The Council of State decided it was necessary to first hold the hearing on the action for revocation of said ruling, submitted by TIMedia, MTV and All Music (Espresso Group).

The hearing for revocation has been set for April 5, 2013, following the deadline for AGCom s publication of the new LCN Plan (mid-April 2013).

Competition

Domestic

The market

The Italian TLC market continues to be highly competitive with significant use of the pricing as a lever, which has led to an ongoing impoverishment of the traditional service components, particularly voice service.

In this environment, the key element in the evolution of the market continues to be the increased penetration of broadband, particularly mobile, also facilitated by the greater spread of next-generation handsets.

The development of broadband has also led to an evolution towards increasing complexity in competitive scenario, with more interrelationships between players of different markets. This has opened the field to competition from non-traditional operators (in particular Over the Top companies - OTTs - and producers of electronic and consumer devices), as well as giving telecommunication operators the opportunity to develop new network based services (mainly in the IT and Media fields).

For the telecommunications operators, in addition to the core competition from the other traditional operators in the sector, the field has been invaded by OTTs and device producers who take advantage of their full understanding of the evolution of consumer trends, consumer electronics and software environments and who operate entirely in the digital world, basing their behavior on competition approaches that are completely different to those of TLC players.

Over time, therefore, the traditional players business models are changing to meet the challenges from the new entrants and to exploit new opportunities:

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in Media, broadcasters, who are vertically integrated players, continue to dominate the scene, however, with the Web becoming increasingly important as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies and OTTS;

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in Information Technology (where Italy continues to have a level of investment relative to its GDP significantly lower than the United States and other European countries), the decline in revenues is driving the various players towards the cloud computing growth oasis as a way of protecting market shares in their respective core businesses. Nevertheless, telecommunications operators are expected to strengthen in this sector, including through partnerships;

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in the Consumer Electronics market, producers can develop services that can be used through the Internet, building on handset ownership and management of the user experience, breaking the relationship between customers and TLC operators and competing with the media and OTTs, thanks to games consoles and set-top boxes, for the role of net enabler through the living room screen;

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OTTs have, for some time now, been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

With regard, on the other hand, to the positioning of the telecommunications operators in converging markets, there are a number of aspects at different levels of development:

- initiatives involving innovative services in the IT market with the expansion of Cloud services from the business to the consumer world;

- new wireless applications such as Machine-to-Machine and mobile payment;

- significant presence as enablers of online digital content use on the living room screen using OTT TV multidevice solutions.

Competition in Fixed Telecommunications

The fixed-line telecommunications market is experiencing a rapid decline in voice revenues due to the reduction in prices and the progressive shift of voice traffic to mobile. In recent years all the operators have attempted to counter this phenomenon by concentrating mainly on the ability to innovate their offering by developing the penetration of ADSL and introducing bundled voice, broadband and services deals (double play), in a highly competitive environment with consequent pricing pressure.

The evolution of the competitive product offering has also been influenced by consolidation, among competitors, of an approach based on the control of infrastructure (above all Local Loop Unbundling - LLU). The main fixed operators are now also offering mobile services, also as Mobile Virtual Operators (MVOs).

In 2012, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat) also thanks to the widespread diffusion of personal computers. For years, both for private consumers and small and medium businesses, mature traditional voice services have been replaced by value-added content and services based on the Internet protocol. This shift has been facilitated by the use of the Internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.

The competitive scenario in the Italian fixed telecommunications market is characterized by the presence, in addition to Telecom Italia, of a number of operators such as Wind-Infostrada, Fastweb, Vodafone-TeleTu, BT Italia that have different business models focused on different segments of the market.

At the end of 2012, fixed accesses in Italy numbered approximately 21.4 million, slightly down from 2011. The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share.

In the broadband market, at December 31, 2012 fixed broadband customers in Italy numbered about 13.6 million with a penetration rate on fixed accesses of about 63%.

The spread of broadband is driven not only by the penetration of personal computers, but also by the growing demand for speed and access to new IP based services (Voice over IP, Content, social networking services, online gaming, IP Centrex, etc.). In 2012, however, the slowdown in growth of the fixed-line broadband market continued, due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the deterioration in the macroeconomic environment.

The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to reduction in average prices.

Competition in Mobile Telecommunications

The mobile market, although saturated and mature in its traditional component of voice services, still continues to see growth in the number of mobile lines, driven by the increase in multiSIM/multidevice customers and in non-human lines (at December 31, 2012, mobile lines in Italy numbered about 97 million with growth of about 1% over 2011 and with a penetration rate of approximately 159% of the population).

Alongside the steady contraction in traditional service components, such as voice and messaging, which also reflect the increasing spread of communication apps , there has been significant growth in the mobile broadband market, which, in the last few years has been, and in the future will continue to be, the main opportunity for the strategic and commercial growth of the mobile telecom industry, also thanks to the launch Ultra Broadband LTE.

In 2012, the growth in mobile broadband customers continued, both large and small screen, with a high penetration rate on mobile lines as a result of the increasing spread of smartphones and tablets.

Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile Apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as mobile payment.

The competitive scenario in the Italian mobile telecommunications market is dominated by Telecom Italia and also by the infrastructured operators (Vodafone, Wind, H3G) which are focused on different segments of the market or have different strategies.

In addition to these operators, the field also includes mobile virtual operators (MVO), of which PosteMobile is the most important player. These operators currently have a limited share of the market, but continue to enjoy significant growth compared to infrastructured operators.

Brazil

At the end of 2012, the Brazilian mobile market reached 261.8 million lines. This is 8.1% more than last year and a penetration of 132.7% of the population (123.9% in 2011). Net total increases for 2012 amounted to 19.5 million lines, 19.7 million less lines than for the prior year.

Argentina

The telecommunications market in Argentina and Paraguay continues to show strong demand for new services and higher access speed in a fiercely competitive environment in the different business segments.

Specifically, in the mobile segment in Argentina, Personal is one of three operators offering services at the national level and competes with Claro (America Móvil group) and Movistar (Telefónica group). Following the introduction of number portability in 2012 competition has intensified. The acquisition and retention of high-value customers will continue to be central to Personal s strategy, which intends to lend support to mobile use through the launch of new products and services that not only enable retention of existing customers, but also put Personal in the position of being the preferred operator in the mobile sector in Argentina.

In Paraguay, Núcleo, despite operating in a market featuring strong competition, strengthened its market position. Its main competitor is Tigo (Millicom group).

In the broadband segment, the Argentina Business Unit operates through the Arnet brand and its competitors are mainly ADSL Speedy (Telefónica group), the operator Fibertel (Clarín group), which offers broadband access services using cable modems, and Telecentro, which offers triple play plans.

Consolidated Financial Position and Cash Flows Performance

Non-current assets

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Goodwill: down 4,492 million euros, from 36,902 million euros at the end of 2011 to 32,410 million euros at December 31, 2012, due to the impairment losses already mentioned above, totaling 4,289 million euros, of which 4,016 million euros for the Domestic - Core Domestic Business Unit, 168 million euros for the Argentina Business Unit and 105 million euros for the Media Business Unit, in addition to the exchange rate effect for the Brazilian and Argentine companies.

Specifically:

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on October 31, 2011 the definitive allocation was made of the price paid for the acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ. As a result, the overall goodwill of 556 million euros recognized provisionally in the consolidated financial statements at December 31, 2011 was adjusted to 499 million euros to reflect the definitive fair value at the acquisition date of control;

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the process was completed for the definitive allocation of the price paid on July 27, 2011 for the acquisition of 4GH group, confirming the amount already assigned to goodwill of 16 million euros;

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Other intangible assets: down 710 million euros, from 8,637 million euros at the end of 2011 to 7,927 million euros at December 31, 2012, representing the balance of the following items:

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additions (+1,995 million euros);

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amortization charge for the year (-2,212 million euros);

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impairment losses (-127 million euros), substantially attributable to the Customer relationships of the Argentina Business Unit and the results of the impairment test of the Media Business Unit;

–

capitalization of borrowing costs relating to the acquisition of the user rights for the LTE mobile telephony frequencies (+52 million euros); the interest rate used is between 4.6% and 5.2%;

–

disposals, exchange differences, reclassifications and other movements (for a net balance of - 418 million euros).

•

Tangible assets: down 514 million euros from 15,993 million euros at the end of 2011 to 15,479 million euros at December 31, 2012, representing the balance of the following:

–

additions (+3,201 million euros);

–

depreciation charge for the year (-3,128 million euros);

–

disposals, impairment losses, exchange differences, reclassifications and other movements (for a net balance of -587 million euros).

Consolidated equity

Consolidated equity amounts to 23,012 million euros (26,694 million euros at December 31, 2011), of which 19,378 million euros attributable to Owners of the Parent (22,790 million euros at December 31, 2011) and 3,634 million euros 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)	12/31/2012	12/31/2011
At the beginning of the year	26,694	32,555
Total comprehensive income (loss) for the year	(2,649)	(4,606)
Dividends approved by:	(1,038)	(1,302)
Telecom Italia S.p.A.	*(895)*	*(1,184)*
Other Group companies	*(143)*	*(118)*
Issue of equity instruments	2	7
Effect of increase in economic interest in Argentina BU	-	(210)
Effect of capital transactions by companies in Brazil BU	-	240
Other changes	3	10
At the end of the year	23,012	26,694

Cash flows

The main transactions that had an impact on the change in adjusted net financial debt during 2012 are the following:

Change in adjusted net financial debt

(millions of euros)	2012	2011	Change
EBITDA	11,645	12,171	(526)
Capital expenditures on an accrual basis	(5,196)	(6,095)	899
Change in net operating working capital:	207	(100)	307
Changes in inventories	*12*	*(36)*	*48*
Change in trade receivables and net amounts due from customers on construction contracts	*851*	*3*	*848*
Change in trade payables (*)	*(161)*	*(63)*	*(98)*
Other changes in operating receivables/payables	*(495)*	*(4)*	*(491)*
Change in provisions for employees benefits	(221)	(175)	(46)
Change in operating provisions and Other changes	35	(34)	69
Net operating free cash flow	6,470	5,767	703

EBITDA Margin	*21.9*	*19.3*	*2.6 pp*
Sale of investments and other disposals flow	151	486	(335)
Share capital increases/reimbursements, incidental expenses	(2)	240	(242)
Financial investments flow	(10)	(925)	915
Dividend payment	(1,031)	(1,326)	295
Finance expenses, income taxes and other net non-operating requirements flow	(3,438)	(3,188)	(250)
Reduction/(Increase) in adjusted net financial debt	2,140	1,054	1,086

(*)

Includes the change in trade payables for amounts due to fixed asset suppliers.

In addition to what has already been described with reference to EBITDA, the change in adjusted net financial debt during 2012 was 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)	2012		2011		Change
		% of total		% of total	
Domestic	3,072	59.1	4,185	68.7	(1,113)
Brazil	1,500	28.9	1,290	21.2	210
Argentina	557	10.7	556	9.1	1
Media, Olivetti and Other Operations	67	1.3	82	1.3	(15)
Adjustments and Eliminations	–	–	*(18)*	*(0.3)*	*18*
Total consolidated capital expenditures	5,196	100.0	6,095	100.0	(899)
% of Revenues	*17.6*		20.3		*(2.7) pp*

Capital expenditures total 5,196 million euros in 2012, a decrease of 899 million euros compared to 2011. In particular:

•

the **Domestic Business Unit** reported a fall of 1,113 million euros.

Excluding capital expenditures for 2011 relating to the purchase of user rights for LTE mobile telephony frequency bands (1,223 million euros) there is a 110 million euros increase attributable in particular to the development of next generation networks (LTE and fiber) in part offset by the lower requirement in relation to delivery of new systems owing to the slowdown in fixed-line business;

•

the **Brazil Business Unit** reported an increase of 210 million euros (including a negative exchange rate effect of 94 million euros), for the purchase of user rights for fourth generation (4G) mobile telephony frequency bands (145 million euros) as well as investments to improve the quality of the network infrastructure;

•

the **Argentina Business Unit** reported capital expenditures in line with the prior year (+1 million euros already including a negative exchange rate effect of 9 million euros). In addition to costs of customer acquisition, expenditure was aimed at enlarging and upgrading broadband services to improve transmission capacity and increase access speed for customers, at traditional fixed-line access to meet demand and at *backhauling* to support mobile access growth. Telecom Personal also invested primarily in increased capacity and enlargement of the 3G network to support Mobile Internet growth.

Change in net operating working capital

In 2012 the change in net working capital resulted in the generation of operating cash flows of 207 million euros (in 2011 there was an overall requirement of 100 million euros).

In 2012 a number of disputes were settled with another operator which basically had a nil effect on the change in net operating working capital and on operating cash flows. This settlement led to a reduction in trade receivables of 350 million euros and trade payables of 432 million euros, and a net reduction in other net operating receivables/payables of 55 million euros.

Sale of investments and other disposals flow

Sale of investments and other disposals flow for the year 2012 totals 151 million euros and is principally attributable to:

–

85 million euros received, net of related incidental expenses and the net financial debt of the investee, from the sale on October 31, 2012 of the entire stake held in Matrix;

–

59 million euros from the collection of the installments on the sale of the investment in EtecSA Cuba, which took place at the end of January 2011.

In 2011 this amounted to 486 million euros and mainly consisted of:

–

411 million euros for the installments already received, net of related incidental expenses, on the above-mentioned sale of EtecSA Cuba.

–

53 million euros received, net of related incidental expenses and the net financial debt of the subsidiary, from the sale of the entire stake held in Loquendo on September 30, 2011.

Financial investments flow

In 2012 financial investments flow total 10 million euros and mainly relate to the payment of incidental expenses and other payables in connection with the acquisition of investments during the last part of the year. In 2011, the amount was 925 million euros, mainly relating to the increase in the stake held in the Sofora - Telecom Argentina group, the acquisition of control of the 4G Holding Group and the acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ.

Share capital increases/reimbursements, incidental expenses

In 2012 these amount to a negative 2 million euros and relate to incidental expenses connected to the capital increase in Tim Participações S.A. that took place in 2011; on October 31, 2011, the capital increase of Tim Participações S.A. was completed with a cash in for the Telecom Italia Group of 240 million euros, net of the related incidental expenses.

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 2012, of net finance expenses (1,831 million euros), and income taxes (1,522 million euros), as well as the change in non-operating receivables and payables.

Net financial debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	23,956	24,478	(522)
Amounts due to banks, other financial payables and liabilities	8,976	10,078	(1,102)
Finance lease liabilities	1,159	1,304	(145)
	34,091	35,860	(1,769)
Current financial liabilities (*)			
Bonds	3,593	3,895	(302)
Amounts due to banks, other financial payables and liabilities	2,338	1,951	387
Finance lease liabilities	219	245	(26)
	6,150	6,091	59
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	–	–	–
Total Gross financial debt	40,241	41,951	(1,710)
Non-current financial assets			
Securities other than investments	(22)	(12)	(10)
Financial receivables and other non-current financial assets	(2,474)	(2,937)	463
	(2,496)	(2,949)	453
Current financial assets			
Securities other than investments	(754)	(1,007)	253
Financial receivables and other current financial assets	(502)	(462)	(40)
Cash and cash equivalents	(7,436)	(6,714)	(722)
	(8,692)	(8,183)	(509)
Financial assets included in Discontinued operations/Non-current assets held for sale	–	–	–
Total financial assets	(11,188)	(11,132)	(56)
Net financial debt carrying amount	29,053	30,819	(1,766)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(779)*	*(405)*	*(374)*
Adjusted net financial debt	28,274	30,414	(2,140)
Detailed as follows:			

Total adjusted gross financial debt	37,681	39,382	(1,701)
Total adjusted financial assets	(9,407)	(8,968)	(439)
(*) of which current portion of medium/long-term debt:			
Bonds	*3,593*	*3,895*	*(302)*
Amounts due to banks, other financial payables and liabilities	*1,681*	*1,064*	*617*
Finance lease liabilities	*219*	*245*	*(26)*

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, which is hedged.

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 Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

The volatility of interest rates and exchange rates, which has been a prominent feature in financial markets since the fourth quarter of 2008, has significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. Having said this and in order to present a more realistic analysis of net financial debt, starting from the Half-Year Financial Report at June 30, 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator has also been presented called 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 cash settlement.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during 2012 resulted in a positive effect on net financial debt at December 31, 2012 of 1,233 million euros (1,334 million euros at December 31, 2011).

Gross financial debt

Bonds

Bonds at December 31, 2012 total 27,549 million euros (28,373 million euros at December 31, 2011). Their nominal repayment amount is 26,323 million euros, decreasing 652 million euros compared to December 31, 2011 (26,975 million euros).

The change in bonds during 2012 is as follows:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 4.625% maturing 6/15/2015	Euro	750	6/15/2012

Telecom Italia S.p.A. 750 million euros 6.125% maturing 12/14/2018	Euro	750	6/15/2012
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 9/20/2017	Euro	1,000	9/20/2012
Telecom Italia S.p.A. 1,000 million euros 4.000% maturing 1/21/2020	Euro	1,000	12/21/2012

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 1,222.5 million euros 6.250% (1)	Euro	1,222.5	2/1/2012
Telecom Italia Finance S.A. 107.7 million euros 3-month Euribor + 1.30%	Euro	107.7	3/14/2012
Telecom Italia Finance S.A. 790 million euros 7.250% (2)	Euro	790	4/24/2012
Telecom Italia S.p.A. 1,000 million euros 3-month Euribor + 0.53%	Euro	1,000	12/6/2012

(1)

Net of buybacks by the Company of 27.5 million euros during 2011.

(2)

Net of buybacks by the Company of 210 million euros during 2011 and 2012.

As in previous years, during 2012, the Telecom Italia Group bought back bonds, with the aim of:

•

giving investors a further possibility of monetizing their positions;

•

partially repaying some debt securities before maturity, increasing the overall return on the Group s liquidity without inviting any additional risks.

In particular, the following bonds were repurchased:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
Telecom Italia Finance S.A. 790 million euros 7.250% maturing April 2012[1]	Euro	11.6	January 2012
Telecom Italia Finance S.A. 678 million euros 6.875% maturing January 2013[1]	Euro	80.8	January-May 2012
Telecom Italia S.p.A. 432 million euros 6.750% maturing March 2013[2]	Euro	212.9	July 2012
Telecom Italia S.p.A. 268 million euros 3-month Euribor +0.63% maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875% maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750% maturing May 2014	Euro	116.2	July 2012

(1)

Buybacks of the above bonds during 2011 amounted to 290 million euros (199 million euros on the bonds maturing April 2012 and 91 million euros on the bonds maturing January 2013). As a result, the total amount bought back was 382 million euros.

(2) As of December 2011, bonds had already been bought back for a total of 5 million euros. As a result, the total amount bought back was 218 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2012, the nominal amount is equal to 230 million euros and decreased by 36 million euros compared to December 31, 2011 (266 million euros).

Revolving credit facility and term loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2012:

(billions of euros)	12/31/2012		12/31/2011	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	-	1.25	0.25
Revolving Credit Facility expiring August 2014	8.0	1.5	8.0	2.0
Revolving Credit Facility - expiring December 2013	0.2	-	0.2	0.2
Total	9.45	1.5	9.45	2.45

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

On September 21 and 28, 2012 the Company repaid the draw downs of 200 million and 250 million euros on the Revolving Credit Facilities expiring December 2013 and February 2013, respectively.

On October 8, 2012 the draw down of 500 million euros on the Revolving Credit Facility expiring August 2014 was repaid. As a result, the overall facility of 8 billion euros has currently been drawn down for a total of 1.5 billion euros.

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 7.13 years.

The average cost of the Group s debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin amounts to 16,140 million euros at December 31, 2012, corresponding to the sum of Cash and cash equivalents and current Securities other than investments, totaling 8,190 million euros (7,721 million euros at December 31, 2011), and the committed credit lines, mentioned above, of which a total of 7,950 million euros has not been drawn down. This margin will cover Group Financial Liabilities due beyond the next 24 months.

In particular:

Cash and cash equivalents amount to 7,436 million euros (6,714 million euros at December 31, 2011). The different technical forms of investing available cash at December 31, 2012, which include Euro Commercial Papers of 150 million euros, may be broken down 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 754 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. They consist of: Italian treasury bonds (BTPs) purchased by Telecom Italia S.p.A. and Telecom Italia Finance S.A., amounting respectively to 358 million euros and 204 million euros; 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012); and 183 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of

BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009. For further details, reference should be made to the Note Financial risk management in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

In the fourth quarter of 2012 adjusted net financial debt fell by 1,211 million euros from the end of September 2012. Operating free cash flow amply covered the income tax requirements of around 0.7 billion euros.

(millions of euros)	12/31/2012 (a)	09/30/2012 (b)	Change (a-b)
Net financial debt carrying amount	29,053	29,971	(918)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(779)*	*(486)*	*(293)*
Adjusted net financial debt	28,274	29,485	(1,211)
Detailed as follows:			
Total adjusted gross financial debt	37,681	38,372	(691)
Total adjusted financial assets	(9,407)	(8,887)	(520)

Consolidated Financial Statements Telecom Italia Group

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 and the comparative figures for the prior year have been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS).

In 2012 the Telecom Italia Group applied accounting policies in line with those used in the prior year, with the exception of:

- *the early adoption and retrospective application of the revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 have been restated on a consistent basis. Further details are provided in the Note Accounting policies in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group;*

- *the new standards and interpretations adopted by the Group from January 1, 2012 that did not have any effect on the profit (loss) for 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; and net financial debt carrying amount 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 2013 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 Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group s control.

Principal changes in the scope of consolidation

The following changes occurred during 2012:

- *Matrix Other Operations: the company was sold on October 31, 2012, and consequently excluded from the consolidation area.*

The following changes occurred during 2011:

- *Tim Fiber Brazil: On October 31, 2011, acquisition of 100% of Eletropaulo Telecomunicações Ltda and 98.3% of AES Communications Rio de Janeiro S.A., telecommunications infrastructure operators in the states of San Paolo and Rio de Janeiro, now renamed TIM Fiber SP and TIM Fiber RJ respectively. The stake originally acquired in Tim*

Fiber RJ was subsequently raised to 99.1% and the remaining 0.9% was the object of a purchase bid which concluded at the end of February 2012 bringing the ownership level to 99.7%. The acquisitions were carried out through the subsidiary Tim Celular S.A. into which the two companies were recently merged;

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4GH group - Domestic: On July 27, 2011 the 4G Holding group (retail sales of telephony equipment) entered the consolidation area following the purchase of 71% of the ordinary shares of 4G Holding S.p.A. which in turn held 100% of 4G Retail S.r.l.. The two companies were merged in 2012;

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

Separate Consolidated Income Statements

(millions of euros)	2012	2011 (Restated)	Change (a-b)	
	(a)	(b)	amount	%
Revenues	29,503	29,957	(454)	(1.5)
Other income	298	299	(1)	°
Total operating revenues and other income	29,801	30,256	(455)	(1.5)
Acquisition of goods and services	(12,948)	(12,859)	(89)	(0.7)
Employee benefits expenses	(3,919)	(3,992)	73	1.8
Other operating expenses	(1,882)	(1,859)	(23)	(1.2)
Change in inventories	12	56	(44)	(78.6)
Internally generated assets	581	569	12	2.1
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	11,645	12,171	(526)	(4.3)
Depreciation and amortization				