



CAPITAL

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

R.C.S. Luxembourg B 77.970

Audited Annual Accounts
as at December 31, 2011

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Directors' report

Dear Shareholders,

The year 2011 of your Company ends with a loss of EUR 1.333.462,56 (profit of EUR 11.796.021,96 in 2010) after having booked tax charges for EUR 403.100,33 (EUR 493.824,60 in 2010).

During the year 2011, your Company continued its activity of providing financial assistance to Telecom Italia Group Companies. The ongoing lending and borrowing activity generated a positive margin equal to EUR 4,3 million. However, in the second part of the year costs for EUR 10,5 million have been registered following the unwinding of a number of derivative agreements.

On January 19, 2011 the Company reached an agreement with the Liquidators of Lehman Brother International Europe under which the amount of the credit asserted by Telecom Italia Capital was admitted and agreed by the Liquidators. Following such agreement, on March 17, the aforesaid credit (together with the guarantee granted by the mother company Lehman Brothers Holding Inc.) has been transferred, in the framework of an auction process among different international banks, to a third party for a consideration of GBP 26.592.421,41, being equal to 70,1% of the original credit value. Compared with the book value of the said credit as of December 31, 2010 (56,33%), the transaction generated a profit of EUR 6.070.420,17.

During the fiscal year 2011 matured and were repaid with accrued interest the following notes:

- on February 1, USD 400.000.000,00 Floating Notes issued on September 28, 2005;
- on July 18, USD 750.000.000,00 6.20% Notes issued on July 2006;
- on July 18, USD 850.000.000,00 Floating Notes issued on July 2006.

The repayments have been settled mainly by utilizing deposits with Telecom Italia S.p.A.

As per December 31, 2011, the aggregate principal amount of the outstanding notes equals to USD 11.650.000.000,00 (USD 13.650.000.000,00 as of December 31, 2010). The revenues of the aforesaid notes have been utilized to provide funding to Telecom Italia Group Companies. All the notes are unconditionally and irrevocably guaranteed by the mother company Telecom Italia S.p.A.

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

As of December 31, 2011 the fully paid in share capital amounts to EUR 2.336.000,00.

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

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

- the Company has raised, and may raise in the future, financing in currencies other than euro. According to its risk management policies, Telecom Italia Capital hedges the foreign currency risk exposure on its liabilities through currency swaps contracts or natural hedge positions. Furthermore, in order to hedge its interest rate exposure, Telecom Italia Capital enters into interest rate swaps;
- Recoverability risk, that may adversely affect the Company, is managed by monitoring achieved results and assessing business forecasts.

The Company is exposed to generic market, credit and liquidity risks.

During the year 2012 it is foreseen to continue the activity of financial assistance to Telecom Italia Group Companies and continue to manage the market risks above mentioned.

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

Financials as of December 31, 2011 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes. Additionally, considering that the present accounts have been prepared according to new local GAAP (law dated as of December 10, 2010) a set of pro-forma tables has been drawn in order to allow the comparison with the previous accounts.

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

- a) allocate the loss of the year 2011 amounting to 1.333.462,56 to the profit and loss brought forward which shall be reduced from EUR 12.879.754,13 to EUR 11.546.291,57.
- b) to reallocate EUR 705.900,00 from the profit and loss brought forward to the net wealth tax reserve. Following art 8a of the law October 16, 1934, as modified, which authorizes the Company to deduct net wealth tax from its own basis, the new created reserve is equal to five (5) times the amount of the net wealth tax to be paid for year 2011 (EUR 141.180,00) and shall be kept unavailable for five years starting from the year immediately following the one in which the reserve has been created.

For the Board of Directors
The Managing Director
Adriano Trapletti



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Balance Sheet

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME BALANCE SHEET AS AT DECEMBER 31, 2011

ASSET - [EUR]	31. DECEMBER 2011	31. DECEMBER 2010	LIABILITIES - [EUR]	31. DECEMBER 2010	31. DECEMBER 2011	31. DECEMBER 2010
B. Formation expenses	[4]	30.305.101,09	A. Capital and reserves	33.706.266,60	26.762.562,96	28.096.025,52
			i. Subscribed capital		2.336.000,00	2.336.000,00
			ii. Share premium and similar premiums		11.810.696,39	11.810.696,39
C. Fixed assets			IV Reserves		234.000,00	234.000,00
III. Financial assets			1. Legal reserve		835.375,00	1.240.249,06
2. Loans to affiliated undertakings	[5]	8.793.691.129,80	4. Other reserves		12.879.754,13	679.058,11
			V. Profit or loss brought forward		-1.333.462,56	11.796.021,96
			VI. Result for the financial year			
D. Current assets			D. Not Subordinated debts	770.879.686,20	9.325.312.856,13	10.764.110.635,09
II. Debtors	[6]	155.281.641,13	1. Debenture loans			
2. Amounts owed by affiliated undertakings			b) Non convertible notes			
a) becoming due and payable after less than one year		284.909.514,09	i) becoming due and payable after less than one year		90.218.238,27	1.601.374.479,85
b) becoming due and payable after more than one year			ii) becoming due and payable after more than one year		8.990.055.829,72	8.703.607.986,44
4. Other debtors	[7]	3.673.074,99	2. Amounts owed to credit institutions			
a) becoming due and payable after less than one year		79.089.653,96	a) becoming due and payable after less than one year		4.162.994,73	6.498.922,57
b) becoming due and payable after more than one year		2.166.397,34	b) becoming due and payable after more than one year		32.004.254,70	34.861.792,92
IV. Cash at bank and in hand	[8]	2.956.906,69	4. Trade creditors			
			a) becoming due and payable after less than one year		605.965,63	710.660,81
			6. Amounts owed to affiliated undertakings			
			a) becoming due and payable after less than one year		78.099.338,54	146.206.726,60
			b) becoming due and payable after more than one year		126.728.392,24	267.556.739,56
			8. Tax and social security			
			a) Tax		1.399.295,82	1.082.585,02
			b) Social security		4.905,80	6.369,26
			9. Other creditors			
			a) becoming due and payable after less than one year		2.033.640,68	2.204.372,06
TOTAL ASSETS		9.352.075.419,09	TOTAL LIABILITIES	10.792.206.660,61	9.352.075.419,09	10.792.206.660,61

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

Profit and Loss

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2011

A. CHARGES - [EUR]	31.DECEMBER.2011	31.DECEMBER.2010	B. INCOME - [EUR]	31.DECEMBER.2011	31.DECEMBER.2010
1. Raw materials and consumables	135,19	0,00			
2. Other external charges	631.752,50	830.630,10	6. Income from financial fixed assets	321.833.649,76	326.011.785,85
3. Staff costs	217.122,08	207.402,72	a) derived from a affiliated undertakings	321.833.649,76	326.011.785,85
a) Wages and salaries	189.844,68	181.716,58			
b) Social security costs	25.402,07	23.286,93			
c) Social security costs relating to pensions	1.875,33	2.399,21			
4. Value adjustments	3.906.842,19	4.940.127,40	8. Other Interest and other financial Income	666.583.347,52	652.568.900,19
a) on formation expenses and on tangible and intangible fixed assets	3.906.842,19	4.940.127,40	a) derived from a affiliated undertakings	629.149.891,09	608.363.082,87
			b) other interest receivable and similar income	37.433.456,43	44.205.817,32
5. Other operating charges	115.696,05	199.156,00			
8. Interest payable and similar charges	[17]	975.031.899,05			
a) concerning affiliated undertakings	411.253.989,02	313.168.143,56	9. Extraordinary income	6.079.500,17	14.918.375,79
b) other interest payable and similar charges	579.382.822,65	661.863.755,49			
10. Tax on profit or loss	403.100,33	493.824,60			
11. Other taxes not included in the previous caption	-81.500,00	0,00			
12. Profit for the financial year	0,00	11.796.021,96	12. Loss for the financial year	1.333.462,56	0,00
TOTAL CHARGES	995.823.960,01	993.499.061,83	TOTAL INCOME	995.823.960,01	993.499.061,83

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

Cash Flow Statement

TELECOM ITALIA CAPITAL SOCIÉTÉ ANONYME CASH FLOW STATEMENT AS AT 31 DECEMBER 11

	31.DECEMBER.2011	31.DECEMBER.2010
Operating Activities		
Profit/Loss before tax	-930.362,23	12.289.846,56
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets [n.3]	3.906.842,19	4.940.127,40
Finance Income	-988.416.997,28	-978.580.686,04
Finance Expenses [n.3]	988.274.217,02	972.543.509,35
Changes in trade and other receivables	25.127.661,11	-14.197.714,04
Changes in trade and other payables	-316.941,50	-2.154.951,28
Net cash flows from operating activities	27.644.419,31	-5.159.868,05
Cash flows from Investing activities		
Changes in Property, plant and equipment	0,00	0,00
Changes in Intangible assets	0,00	0,00
Changes in Participations, funds and other securities	0,00	0,00
Investments and re-payments in Financial Receivables	1.539.934.155,97	1.619.678.907,06
Interest, commissions and other financial income received	1.006.521.138,43	1.000.246.209,70
Dividends received	0,00	0,00
Income received from participations and funds	0,00	0,00
Net cash flows from Investing activities	2.546.455.294,40	2.619.925.116,76
Cash flows from Financing activities		
Net change arising from Net Equity	0,00	0,00
Net change in short-term financial payables	6.600.000,00	0,00
Proceeds from borrowings	0,00	0,00
Repayments of borrowings	-1.602.437.081,20	-1.612.115.196,17
Interest, commissions and other financial expenses paid	-1.003.985.512,23	-987.423.527,95
Dividends paid	0,00	0,00
Net cash flows from financing activities	-2.599.822.593,43	-2.599.538.724,12
Net Increase / Decrease in Cash and Cash Equivalents	-25.722.879,72	15.226.524,59
Net foreign exchange differences in C&CE	108.355,00	-2.168.587,68
Cash and cash equivalents at 01 January	27.779.677,06	14.721.740,15
Cash and cash equivalents at the end of the period	2.165.152,34	27.779.677,06

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

Notes to the accounts

as at December 31, 2011

Note 1 – General

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

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

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

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

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

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

Note 2 – Summary of significant accounting policies

Basis of presentation

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

As allowed by the amended law of 19 Dec. 2002, the Board of Directors of the company has decided to include the cash flow statements based on the indirect method.

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

Use of estimates

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

Foreign currency translation

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

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

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

The exchange rate used to convert as of December 31, 2011 the operations in USD into EUR is the following: 1 EUR= USD 1,2939.

Formation expenses

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

Fixed assets

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

Debtors

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

Cash at bank and in hand

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

Accrued income and charges

Accrued interest are shown with their principal amount.

Prepayments and accrued income/Accruals and deferred income

“Prepayments and accrued income” and “Accruals and deferred income” accounts include prepaid charges and prepaid income.

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

Derivative instruments

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

Notes and other liabilities

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

Provisions

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

Note 3 – New layout of Accounts

The layout of the Balance Sheet and the Profit and Loss account as regards the form adopted for their presentation has been changed and reclassifications have been undertaken from the previous to the current year in order to comply with the December 19, 2002 law, as amended by the December 10, 2010 law, concerning the accounting and annual accounts of Luxembourg Companies.

Changes in Balance Sheet and in Profit and Loss are detailed in the note 28 "Adjustment on the comparison period" (from page 26 to page 34) that is integral part of these annual accounts.

In Cash Flow Statements the only difference is the reclassification between *Amortization of formation expenses and on tangible and intangible fixed assets* and *Finance Expenses* (in *Operating activities* section) done to give consistency with the new profit and loss layout and detailed as follows:

	<u>Amortization of (...) fixed assets</u>	<u>Financial Expenses</u>
Cash Flow Statements as presented in the 2010 annual accounts	2.889,24	977.480.747,51
Reclassification		
Amortization of bond issuance expenses	4.937.238,16	-4.937.238,16
Cash Flow Statements as at December 31, 2010	<u>4.940.127,40</u>	<u>972.543.509,35</u>

Note 4 – Formation expenses

This item is composed as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	<u>EUR</u>	<u>EUR</u>
Incorporation expenses	7.451,66	10.340,90
Bond issuance expenses	30.297.649,43	33.697.925,70
	<u>30.305.101,09</u>	<u>33.708.266,60</u>

Note 5 – Loans to affiliated undertakings

This item is composed by EUR 8.793.691.129,80 being the total amount of medium-long term loans granted to Telecom Italia S.p.A. (the "Parent Company") utilizing the proceeds received by issuing notes (EUR 9.984.105.204,14 as per December 31, 2010).

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: EUR 1.233.000.000,00 Reimbursed July 18, 2011 Floater rate: Euribor 6m + 0,75300%	0,00	1.233.000.000,00
Nominal value: EUR: 30.812.955,83 Reimbursed February 1, 2011 Floater rate: Euribor 6m + 1,21500%	0,00	30.812.955,83
Nominal value: EUR: 1.058.000.000,00 Expiring April 1, 2013 Floater rate: Euribor 6m + 0,73335%	1.058.000.000,00	1.058.000.000,00
Nominal value: USD 2.000.000.000,00 Expiring November 15, 2014 [*] Floater rate: USDLibor 3m + 0,71000%	1.545.714.506,53	1.496.781.918,87
Nominal value: EUR: 700.000.000,00 Expiring December 18, 2014 Fixed rate: 5,94017%	700.000.000,00	700.000.000,00
Nominal value: EUR: 20.000.000,00 Expiring December 18, 2014 Fixed rate: 5,94017%	20.000.000,00	20.000.000,00
Nominal value: EUR: 83.000.000,00 Expiring November 2, 2015 Floater rate: Euribor 6m + 2,06660%	83.000.000,00	83.000.000,00
Nominal value: EUR 1.816.000.000,00 Expiring September 30, 2019 Floater rate: Euribor 6m + 0,87870%	1.816.000.000,00	1.816.000.000,00
Nominal value: EUR 642.000.000,00 Expiring December 4, 2019 Fixed rate: 7,10320%	642.000.000,00	642.000.000,00
Nominal value: EUR: 700.000.000,00 Expiring December 18, 2019 Fixed rate: 6,78656%	700.000.000,00	700.000.000,00
Nominal value: EUR: 20.000.000,00 Expiring December 18, 2019 Fixed rate: 6,78656%	20.000.000,00	20.000.000,00
Nominal value: USD 1.000.000.000,00 Expiring November 15, 2034 [*] Floater rate: USDLibor 3m + 1,10000%	772.857.253,27	748.390.959,44
Nominal value: EUR 791.119.370,00 Expiring January 18, 2037 Floater rate: Euribor 6m + 1,45969%	791.119.370,00	791.119.370,00
Nominal value: EUR: 645.000.000,00 Expiring December 5, 2039 Fixed rate: 7,53220%	645.000.000,00	645.000.000,00
	8.793.691.129,80	9.984.105.204,14

[*] Differences between December 31, 2011 and December 31, 2010 are due to exchange rate impact.

Note 6 – Amounts owed by affiliated undertakings

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

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Current portion of Long Term Loans with Parent Company	0,00	271.682.382,88
Accruals on long term loans with Parent Company	45.998.479,89	50.545.818,31
Short term loan with TMI UK	6.500.000,00	6.500.000,00
Short term loan with TI Germany	8.200.000,00	12.700.000,00
Accruals on short term loans with Group Companies	117.169,50	346.007,10
Accruals on interest rate swaps with Parent Company	77.596.109,71	100.862.911,12
Accruals on interest rate swaps with Group Companies	7.843.542,70	0,00
Exchange rate evaluation of currency and interest rate swaps with Parent Company	9.026.339,33	0,00
	155.281.641,13	442.637.119,41

b) becoming due and payable after more than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency and interest rate swaps with Parent Company	269.695.200,77	207.460.276,36
Exchange rate evaluation of currency and interest rate swaps with Group Companies	15.214.313,32	0,00
	284.909.514,09	207.460.276,36

Note 7 – Other debtors

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

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency swaps with banks	0,00	207.960,06
Accruals on currency swaps with banks	0,00	3.550,76
Accruals on interest rate swaps with banks	3.673.074,99	3.548.654,34
	3.673.074,99	3.760.165,16

b) becoming due and payable after more than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency and interest rate swaps with banks	79.089.653,96	64.409.877,67
Recovery value of credit recorded vs. Lehman Brothers [*]	0,00	24.827.230,83
	79.089.653,96	89.237.108,50

[*]This item reflects the estimated recovery value of the credit registered vs. Lehman Brothers International Europe in Administration. Such credit, originally booked for EUR 47.953.608,68, has been converted into USD 68.151.668,66 based on the claims filing. During the year 2010, in execution of a decision of the UK High Court, the position has been converted into GBP 37.934.980,37.

On March 22, 2011 the Company sold with no recourse the credit at 70,10% corresponding to GBP 26.592.421,41 (EUR 30.643.490,91).

Note 8 – Cash at bank and in hand

	<i>December, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Bank current accounts	201.437,99	291.262,15
Bank term deposit accounts	1.963.714,35	27.488.414,91
Cash and cash equivalent as shown in Cash Flow Statement	2.165.152,34	27.779.677,06
Accruals on bank term deposits	1.245,00	5.339,71
	2.166.397,34	27.785.016,77

Note 9 – Subscribed capital

As of December 31, 2011 the authorized, issued and fully paid in share capital of EUR 2.336.000,00 is represented by 100.000 shares with a nominal value of EUR 23,36 per share.

As of December 31, 2011 and December 31, 2010, the Company is 100% held by Telecom Italia S.p.A.

Note 10 – Share premium and similar premiums

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

Note 11 – Reserves

Reserves are split as follows:

- The Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reverse equals 10% of the subscribed share capital. This reserve may not be distributed. The legal reserve as of 31.12.2011 amounts to EUR 234.000,00, equal to the 10% of the share capital. The reserve has been set up by the shareholders meeting as of March 2, 2005 by converting a quote of other unavailable reserves;
- Other reserves consist of Tax reserve for an amount of EUR 835.575,00. It has been created by the annual shareholders meetings held between the years 2006 and 2010 and is equal to five times the amount of the Net Wealth Tax to be paid for year 2005, 2006, 2007, 2008 and 2010. It will be unavailable for distribution for a five years period since the year following its creation and is detailed as below:

Fiscal year 2005	EUR	83.225,00
Fiscal year 2006	EUR	86.400,00
Fiscal year 2007	EUR	110.325,00
Fiscal year 2008	EUR	148.125,00
Fiscal year 2010	EUR	407.500,00
	EUR	835.575,00

	<i>Legal Reserve (EUR)</i>	<i>Other reserves (EUR)</i>	<i>Profit/Loss brought forward (EUR)</i>	<i>Result for the financial year (EUR)</i>
Balance as at 31.12.2010	234.000,00	1.240.249,06	679.058,11	11.796.021,96
Movements for the year				
Allocation of prior year's profit		407.500,00	11.388.521,96	- 11.796.021,96
Reallocation of Reserve [*]		- 812.174,06	812.174,06	
Profit/Loss for the year				-1.333.462,56
Balance as at 31.12.2011	234.000,00	835.575,00	12.879.754,13	-1.333.462,56

[*] Shareholders Meeting held on April 11, 2011 decided to reallocate to retained earnings the reserve set up by the 2009 General Meeting in order to cover losses matured until February 2009.

Note 12 – Non convertible notes

The Company has issued non-convertible notes for a total outstanding amount of USD 11.650.000.000,00 as at December 31, 2011 (December 31, 2010 – USD 13.650.000.000,00).

i) becoming due and payable after less than one year

	<i>December 31, 2011 EUR</i>	<i>December 31, 2010 EUR</i>
Nominal value: USD 400.000.000,00 Expired February 1, 2011 Floating Rate Libor 3m + 0,48 %	0,00	299.356.383,77
Nominal value: USD 750.000.000,00 Expiring July 18, 2011 Fixed Interest Rate 6,20 %	0,00	561.293.219,58
Nominal value: USD 850.000.000,00 Expiring July 18, 2011 Floating Rate Libor 3m + 0,61 %	0,00	636.132.315,52
Prepaid charges on notes (issue discounts) - <i>Current portion</i>	-1.910.693,64	- 1.957.095,74
Accrued interest on notes	92.128.931,91	106.549.656,72
	90.218.238,27	1.601.374.479,85

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

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value USD: 2.000.000.000,00 Expiring November 15, 2013 Fixed Interest Rate 5,25 %	1.545.714.506,53	1.496.781.918,87
Nominal value: USD 1.000.000.000,00 Expiring June 18, 2014 Fixed Interest Rate 6,18 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.250.000.000,00 Expiring September 30, 2014 Fixed Interest Rate 4,95 %	966.071.566,58	935.488.699,30
Nominal value: USD 1.400.000.000,00 Expiring October 1, 2015 Fixed Interest Rate 5,25 %	1.082.000.154,57	1.047.747.343,21
Nominal value: USD 1.000.000.000,00 Expiring June 4, 2018 Fixed Interest Rate 6,99 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.000.000.000,00 Expiring June 18, 2019 Fixed Interest Rate 7,18 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.000.000.000,00 Expiring November 15, 2033 Fixed Interest Rate 6,37 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.000.000.000,00 Expiring September 30, 2034 Fixed Interest Rate 6,00 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.000.000.000,00 Expiring July 18, 2036 Fixed Interest Rate 7,20 %	772.857.253,27	748.390.959,44
Nominal value: USD 1.000.000.000,00 Expiring June 4, 2038 Fixed Interest Rate 7,72 %	772.857.253,27	748.390.959,44
Prepaid charges on notes (issue discounts) – <i>Long term portion</i>	- 13.731.170,85	- 15.146.691,02
	<u>8.990.055.829,72</u>	<u>8.703.607.986,44</u>

Note 13 – Amounts owed to credit institutions

Those items refer to the bank loans used to fund issuance costs for notes released from 2003 to 2006. Loans have a quarterly amortizing period. The residual nominal amount of loans is split as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	<u>EUR</u>	<u>EUR</u>
Related to notes issued as of October 29, 2003 for an initial amount of USD 31.300.000,00:		
Final payment data:		
November 15, 2013	2.499.338,60	3.582.874,08
November 15, 2033	8.744.504,03	8.671.665,50
Nominal residual amount	<u>11.243.842,63</u>	<u>12.254.539,58</u>
Related to notes issued as of October 6, 2004 for an initial amount of USD 35.652.500,00:		
Final payment data:		
September 30, 2014	2.445.910,10	3.163.324,21
September 29, 2034	12.046.390,01	11.945.724,76
Nominal residual amount	<u>14.492.300,11</u>	<u>15.109.048,97</u>
Related to notes issued as of September 28, 2005 for an initial amount of USD 19.684.000,00:		
Final payment data:		
February 1, 2011	0,00	51.448,63
October 1, 2015	5.273.110,66	6.261.328,74
Nominal residual amount	<u>5.273.110,66</u>	<u>6.312.777,37</u>
Related to notes issued as of July 18, 2006 for an initial amount of USD 14.036.250,00:		
Final payment data:		
July 18, 2011	0,00	492.985,63
July 18, 2011	0,00	368.658,23
July 18, 2036	4.979.220,08	4.929.123,51
Nominal residual amount	<u>4.979.220,08</u>	<u>5.790.767,37</u>

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

a) becoming due and payable after less than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Portion payable within 1 year	3.984.218,78	6.287.723,25
Accrued interest on loans	178.775,95	211.199,32
	4.162.994,73	6.498.922,57

b) becoming due and payable after more than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Portion payable beyond 1 year	32.004.254,70	34.861.792,92
	32.004.254,70	34.861.792,92

Note 14 – Amounts owed to affiliated undertakings

This item refers to the following payables due to Parent Company:

a) becoming due and payable after less than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Guarantee fee	2.362.594,65	2.488.389,19
Short term loan with Group Companies	6.600.000,00	0,00
Exchange rate evaluation of currency interest rate swaps expiring within 1 year	30.350.259,06	99.570.193,13
Accruals on Loans	15.785,67	0,00
Accruals on interest rate swaps	38.770.699,16	44.148.144,28
	78.099.338,54	146.206.726,60

b) becoming due and payable after more than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency interest rate swaps expiring beyond 1 year	126.728.392,24	267.556.739,56
	126.728.392,24	267.556.739,56

Note 15 – Tax and social security

a) Tax

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Income tax	1.365.535,31	964.009,98
TVA	14.004,12	19.000,00
Net Wealth Tax	0,00	81.500,00
Fees Chamber of Commerce	18.075,04	18.075,04
Other taxes	1.681,35	0,00
	1.399.295,82	1.082.585,02

b) Social security

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Social security debts	4.905,80	6.369,26
	4.905,80	6.369,26

Note 16 – Other creditors becoming due and payable after less than one year

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Exchange rate evaluation of currency swaps with banks	15.292,71	258.405,79
Accruals on currency swaps with banks	38,99	2.409,47
Accruals on interest rate swaps with banks	2.018.308,98	1.943.556,80
	2.033.640,68	2.204.372,06

Note 17 – Interest payable and similar charges

a) concerning affiliated undertakings

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Interest due to Group Companies	105.933,11	142.046,40
Guarantee Fees due to Parent Company	2.362.594,65	2.488.389,70
Other fees due to Group Companies	125.000,00	125.000,00
Charges on interest rate swaps with Parent Company	302.861.160,24	310.412.707,46
Charges on interest rate swaps with Group Companies	105.799.301,02	0,00
	411.253.989,02	313.168.143,56

b) other interest payable and similar charges

Interest and charges vs. banks	1.685.465,10	2.001.281,62
Other financial commission	2.954,92	2.382,43
Interest and similar expenses on debentures	549.846.731,69	626.412.807,43
Charges on interest rate swaps with banks	29.570.152,99	29.978.867,62
Charges on currency swaps with banks	19.050,44	26.257,79
Losses on exchange rates	2.162.420,46	8.379.396,76
	583.286.775,60	666.800.993,65

Note 18 – Income from financial fixed assets derived from affiliated undertakings

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Interest on long term loans to Parent Company	321.833.649,76	326.011.785,85
	321.833.649,76	326.011.785,85

Note 19 – Other interest and other financial income

a) derived from affiliated undertakings

	December 31, 2011	December 31, 2010
	EUR	EUR
Interest and commissions on receivables from Parent Company	0,00	1.272.826,14
Interest and commissions on receivables from Group Companies	613.344,55	1.244.912,11
Income on interest rate swaps with Parent Company	618.689.138,56	605.845.344,62
Income on interest rate swaps with Group Companies	9.847.407,98	0,00
	629.149.891,09	608.363.082,87

b) other interest receivable and similar income

Interest on Bank deposits	117.199,39	46.559,67
Income on interest rate swaps with banks	35.321.033,99	38.385.523,16
Income on currency swaps with banks	24.719,95	9.326,42
Gain on exchange rates	1.970.503,10	5.764.408,07
	37.433.456,43	44.205.817,32

Note 20 – Extraordinary Income

This item refers to:

- EUR 6.070.420,17, being the plus-value recorded on the disposal of the credit registered vs. Lehman Brothers (see note 7);
- EUR 9.080,00, being the plus-value recorded on the cancellation of an old debt booked on 2004 not claimed by the counterparty.

Note 21 – Hedging contracts and other derivative agreements

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

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Currency and interest rate swap contracts with the Parent Company	5.906.643.687,00	8.475.176.971,34
Currency and interest rate swap contracts with Group Companies	178.000.000,00	0,00
Currency and interest rate swap contracts with banks	384.624.698,00	384.624.698,00
Interest rate swap contracts with the Parent Company	5.622.536.517,51	7.109.714.114,65
Interest rate swap contracts with Group Companies	367.107.195,30	0,00
Interest rate swap contracts with banks	386.428.626,63	374.195.479,72
Currency swaps with banks	261.313,87	30.000.161,01
	<u>12.845.602.038,31</u>	<u>16.373.711.424,72</u>

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

	<i>December 31, 2011</i>	<i>December 31, 2010</i>
	<i>EUR</i>	<i>EUR</i>
Currency and interest rate swap contracts with the Parent Company	76.529.802,61	-274.744.117,50
Currency and interest rate swap contracts with Group Companies	15.918.919,42	0,00
Currency and interest rate swap contracts with banks	19.675.079,10	23.664.417,37
Interest rate swap contracts with the Parent Company	1.315.383.342,23	799.489.797,89
Interest rate swap contracts with Group Companies	122.953.583,86	0,00
Interest rate swap contracts with banks	190.534.463,35	73.160.168,36
Currency swaps with banks	-15.623,97	-64.994,20
	<u>1.740.979.566,60</u>	<u>621.505.271,92</u>

Note 22 – Tax situation

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

Note 23 – Consolidation

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

Note 24 – Directors remuneration

The Directors have not been remunerated in their capacity as Director during the fiscal year 2011.

Note 25 – Staff

As of December 31, 2011 the Company had 4 employees on its payroll (December 31, 2010 – 4). The average of employees during the fiscal year has been of 4 resources (2010 – 3,92).

Note 26 – Litigation

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

Note 27 – Auditor's fees

During fiscal year 2011 a total of EUR 32.940,00 (2010 – EUR 3.300,00) has been paid to PricewaterhouseCoopers S.à.r.l., for the audit activity. No other amount has been paid to the Auditor or other Group Companies within the PricewaterhouseCoopers network.

Note 28 – Adjustment on the comparison period

According to the Grand Duchy Law of the December 10, 2010 modifying the G.D. Law of the December 19, 2002 and in the respect of the G.D. Law of the June 22, 2009 introducing the standard Chart of Accounts of Luxembourg, the Company has drawn the Balance Sheet and the Profit and Loss as at December 31, 2010 under the new layout.

In the following pages you can find the details concerning the reclassification made-up for the comparison period.

Balance Sheets as at December 31, 2010

TELECOM ITALIA CAPITAL S.A.

RECONCILIATION BETWEEN THE BALANCE SHEET ITEMS APPROVED AS AT DECEMBER 31, 2010 AND THOSE SHOWN ACCORDINGLY WITH THE LAW OF DECEMBER 10, 2010

BALANCE SHEET APPROVED AS AT DECEMBER 31, 2010		ASSETS - EUR A	BALANCE SHEET IN NEW LAYOUT	
B. Incorporation expenses	10.340,90	33.697.825,70	B. Formation expenses	[i] 33.708.266,60
C. Non current assets	10.008.931.435,89	-24.827.231,75	C. Fixed assets	9.984.109.204,14
III. Non current financial assets			III. Financial assets	
2 Receivables from group companies	9.984.105.204,14		2 Loans to affiliated undertakings	9.984.105.204,14
6 Other receivables	24.827.231,75	-24.827.231,75		
D. Current Assets	590.740.174,46	180.339.511,74	D. Current assets	770.879.686,20
II. Financial receivables			II. Debtors	
2 Receivables from group companies			2 Amounts owed by affiliated undertakings	
a) receivable within 1 year	290.882.383,31	151.754.736,10	a) becoming due and payable after less than one year	[ii] 442.637.119,41
b) receivable beyond 1 year	207.460.276,36		b) becoming due and payable after more than one year	207.460.276,36
4 Other receivables			4 Other debtors	
a) receivable within 1 year	207.960,06	3.552.205,10	a) becoming due and payable after less than one year	[iii] 3.760.165,16
b) receivable beyond 1 year	64.409.877,67	24.827.230,83	b) becoming due and payable after more than one year	[iv] 89.237.108,50
IV Cash and cash equivalent	27.779.677,06	5.339,71	IV Cash at bank and in hand	[v] 27.785.016,77
E. Prepayments and accrued income	209.627.496,12	-206.113.993,45	E. Prepayments and accrued income	3.513.503,67
TOTAL ASSETS	10.809.310.447,37	-17.103.786,76	TOTAL ASSETS	10.792.206.660,61
BALANCE SHEET APPROVED AS AT DECEMBER 31, 2010		LIABILITIES - EUR A	BALANCE SHEET IN NEW LAYOUT	
A. Capital and reserves	28.096.025,52	0,00	A. Capital and reserves	28.096.025,52
I. Subscribed share capital	2.336.000,00		I. Subscribed capital	2.336.000,00
II. Issuance premium	11.810.696,39		II. Share premium and similar premiums	11.810.696,39
IV. Reserves			IV. Reserves	
3. Legal reserve	234.000,00		1. Legal reserve	234.000,00
4. Other reserves	1.240.249,06		4. Other reserves	1.240.249,06
V. Profit brought forward	679.058,11		V. Profit or loss brought forward	679.058,11
VI. Result of the period	11.796.021,96		VI. Result for the financial year	11.796.021,96
C. Creditors	10.628.359.455,26	135.751.179,83	D. Not Subordinated debts	10.764.110.635,09
1. Notes			1. Debtore loans	
b) Non convertible notes			b) Non convertible notes	
a) payable within 1 year	1.496.781.918,87	104.592.560,98	i) becoming due and payable after less than one year	[vi] 1.601.374.479,85
b) payable beyond 1 year	8.718.754.677,46	-15.146.691,02	ii) becoming due and payable after more than one year	[vii] 8.703.607.986,44
2. Payables to banks and financial institutions		6.498.922,57	2. Amounts owed to credit institutions	
b) payable beyond 1 year	41.149.516,17	-6.287.723,25	a) becoming due and payable after less than one year	[viii] 6.498.922,57
4. Trade and services payables			b) becoming due and payable after more than one year	34.861.792,92
a) payable within 1 year	710.660,81		4. Trade creditors	
6. Payables to group companies			a) becoming due and payable after less than one year	710.660,81
a) payable within 1 year	102.056.582,32	44.148.144,28	6. Amounts owed to affiliated undertakings	
b) payable beyond 1 year	267.556.739,56		a) becoming due and payable after less than one year	[ix] 146.206.726,60
8. Tax payables and social security contributions			b) becoming due and payable after more than one year	267.556.739,56
a) payable within 1 year	1.088.954,28	-6.369,26	II. Tax and social security	
		6.369,26	a) Tax	1.082.585,02
9. Other payables			b) Social security	[x] 6.369,26
a) payable within 1 year	258.405,79	1.945.966,27	9. Other creditors	
			a) becoming due and payable after less than one year	[xi] 2.204.572,06
D. Accruals and deferred income	152.854.966,59	-152.854.966,59	E. Accruals and deferred income	0,00
TOTAL LIABILITIES	10.809.310.447,37	-17.103.786,76	TOTAL LIABILITIES	10.792.206.660,61

Profit and Loss for the year ended December 31, 2010

TELECOM ITALIA CAPITAL S.A.
RECONCILIATION BETWEEN THE BALANCE SHEET ITEMS APPROVED AS AT DECEMBER 31, 2010 AND THOSE SHOWN ACCORDINGLY WITH THE LAW OF DECEMBER 10, 2010

PROFIT AND LOSS APPROVED AS AT DECEMBER 31, 2010	A. EXPENSES - EUR Δ	PROFIT AND LOSS IN NEW LAYOUT
2.a) Acquisition of goods and services	0,00	2. Other external charges [xii] 830.630,10
3. Staff costs	205.003,51	3. Staff costs 207.402,72
a) Wages and salaries	181.716,58	a) Wages and salaries 181.716,58
b) Social security contributions	23.286,93	b) Social security contributions 23.286,93
	2.399,21	c) Social security costs relating to pensions [xiii] 2.399,21
4.a) Value adjustment in respect of tangible and intangible assets	2.889,24	4. Value adjustments 2.889,24
	0,00	a) on formation expenses and on tangible and intangible fixed assets 2.889,24
5. Other operating expenses	1.032.185,81	5. Other operating charges 189.156,00
7. Interest and similar expenses	979.869.137,21	8. Interest payable and similar charges 879.869.137,21
a) concerning group companies	313.168.143,56	a) concerning affiliated undertakings 313.168.143,56
b) other interest and charges	666.600.993,65	b) other interest payable and similar charges 666.600.993,65
11. Income tax	493.824,60	10. Tax on profit or loss 493.824,60
12. Other taxes not mentioned in the points above	0,00	11. Other taxes not included in the previous caption 0,00
13. Net income for the period	11.796.021,86	12. Profit for the financial year 11.796.021,86
TOTAL EXPENSES	993.499.061,83	TOTAL CHARGES 993.499.061,83
PROFIT AND LOSS APPROVED AS AT DECEMBER 31, 2010	A. INCOME - EUR Δ	PROFIT AND LOSS IN NEW LAYOUT
	326.011.785,85	6. Income from financial fixed assets 326.011.785,85
	326.011.785,85	a) derived from affiliated undertakings [xiv] 326.011.785,85
7. Other interest and similar income	993.499.061,83	8. Other interest and other financial income 652.568.900,19
a) from group companies	934.374.868,72	a) derived from affiliated undertakings [xv] 608.363.082,87
b) other interest and similar income	59.124.193,11	b) other interest receivable and similar income [xvi] 44.205.817,32
	652.568.900,19	9. Extraordinary income [xvii] 14.818.375,79
	608.363.082,87	
	44.205.817,32	12. Loss for the financial year 0,00
9. Exceptional income	0,00	
10. Net loss for the period	0,00	
TOTAL INCOME	993.499.061,83	TOTAL INCOME 993.499.061,83

Details of reclassifications

In the following pages we explain the reclassifications carried out in the audited accounts in order to meet the new requirements, showing for each item the line used in the Audited Balance Sheet and the Profit and Loss as at December 31, 2010 and, where applicable, the related note and the description used in it.

[i] – Formation expenses

The item includes incorporation expenses and other similar charges the Company paid for bond issuances.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Assets		
B. Incorporation expenses		10.340,90
E. Prepayments and accrued income	[7] Prepaid charges and expenses on notes (Issue discounts and other similar charges)	33.697.925,70
		33.708.266,60

[ii] – Amounts owed by affiliated undertaking becoming due and payable after less than one year

The item refers to loans receivable within one year granted to Group Companies and the related accruals.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Assets		
D. Current assets		
II. Financial receivables		
2. Receivables from Group Companies		
a) receivable within 1 year	[5]	290.882.383,31
E. Prepayments and accrued income	[7] Accrued interest on hedging Instruments	100.862.911,12
	[7] Accrued Interest on amount owed by Parent Company	50.545.818,31
	[7] Accrued Interest on amount owed by related Group Companies	346.006,67
		442.637.119,41

[iii] – Other debtors becoming due and payable after less than one year

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Assets		
D. Current assets		
II. Financial receivables		
4. Other receivables		
a) receivable within 1 year		207.960,06
E. Prepayments and accrued income	[7]	Accrued interest on hedging instruments
		3.552.205,10
		3.760.165,16

[iv] – Other debtors becoming due and payable after more than one year

This item is composed by the estimated recovery value of the credit registered vs. Lehman Brothers International Europe in Administration and the positive value of hedging instruments towards banks.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Assets		
C. Non current assets		
III. Non current financial assets		
6. Other receivables	[4]	24.827.230,83
D. Current assets		
II. Financial receivables		
4. Other receivables		
a) receivable beyond 1 year	[6]	Other receivables (CCIRS towards third parties)
		64.409.877,67
		89.237.108,50

[v] – Cash at bank and in hand

The item includes the cash and the accruals on bank deposits.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Assets		
D. Current assets		
IV. Cash and cash equivalents		27.779.677,06
E. Prepayments and accrued income	[7]	Accrued interest on bank deposits
		5.339,71
		27.785.016,77

[vi] – Non convertible notes becoming due and payable after less than one year

The item includes notes issued by the Company that have a residual life within one year, together with all the accruals on notes and the current portion of issue discounts and issue premiums.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
<u>Assets</u>		
E. Prepayments and accrued income	[7]	-1.957.095,74
		Prepaid charges and expenses on notes (issue discounts and other similar charges)
<u>Liabilities</u>		
C. Creditors		
1. Notes		
b) non convertible notes		
a) payable within 1 year	[11]	1.496.781.918,87
D. Accruals and deferred income	[16]	106.549.656,72
		Accrued Interest on debentures
		1.601.374.479,85

[vii] – Non convertible notes becoming due and payable after more than one year

The item includes the notes issued by the Company that have a residual life beyond one year and the medium and long term portion of issue discounts.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
<u>Assets</u>		
E. Prepayments and accrued income	[7]	- 15.146.691,02
		Prepaid charges and expenses on notes (issue discounts and other similar charges)
<u>Liabilities</u>		
C. Creditors		
1. Notes		
b) non convertible notes		
b) payable beyond 1 year	[11]	8.718.754.677,46
		8.703.607.986,44

[viii] – Amounts owed to credit institutions becoming due and payable after less than one year

The item includes the payables to banks within one year and the accruals on the liabilities to banks payable within one year.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Liabilities		
C. Creditors		
2. Payables to banks and financial institutions		
b) payable within 1 year	[12]	6.287.723,25
D. Accruals and deferred income	[16]	211.199,32
		6.498.922,57

[ix] – Amounts owed to affiliated undertakings becoming due and payable after less than one year

The item includes amounts owed to affiliated Group Companies and the related accruals.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Liabilities		
C. Creditors		
6. Payables to Group Companies		
a) payable within 1 year	[13]	102.058.582,32
D. Accruals and deferred income	[16]	44.148.144,28
		146.206.726,60

[x] – Social security

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Liabilities		
C. Creditors		
8. Tax payables and social security contributions		
a) payable within 1 year	[14]	6.369,26
		6.369,26

[xi] – Other creditors becoming due and payable after less than one year

The item includes exchange evaluation of currency swaps and the related accruals.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Liabilities		
C. Creditors		
9. Other payables		
a) payable within 1 year	[15]	258.405,79
D. Accruals and deferred income	[16]	1.945.966,27
		2.204.372,06

[xii] – Other external charges

The item is composed as follows:

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Expenses		
5. Other operating expenses		830.630,10
		830.630,10

[xiii] – Social security costs relating to pensions

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Expenses		
5. Other operating expenses		2.399,21
		2.399,21

[xiv] – Income from financial fixed assets derived from affiliated undertakings

The item includes positive interest on fixed financial assets related to Group Companies.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Income		
7. Other interest and similar income		
a) from Group Companies	[18]	326.011.785,85
		326.011.785,85

[xv] – Other interest and other financial income derived from affiliated undertakings

The item includes positive interest on short term financial assets with Group Companies.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Income		
7. Other interest and similar income		
a) from Group Companies	[18] Interest on Group Companies	2.515.368,46
	[18] Commission from Group Companies	2.369,79
	[18] Interest on derivatives vs Parent Company	605.845.344,62
		608.363.082,87

[xvi] – Other interest receivable and similar income

The item includes positive interest on short term financial assets with third parties.

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Income		
7. Other interest and similar income		
b) Other interest and similar income	[18] Interest on bank deposit	46.559,67
	[18] Interest on derivatives vs Bank	38.394.849,58
	[18] Gain on exchange rates	5.764.408,07
		44.205.817,32

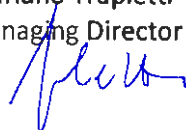
[xvii] – Extraordinary income

<i>Line in previous schemes</i>	<i>Note</i>	<i>Amount</i>
Income		
7. Other interest and similar income		
b) Other interest and similar income	[18] Partial reversal of impairment	14.918.375,79
		14.918.375,79

Declaration of the manager responsible for financial reporting

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer as at and for the period ended December 31, 2011, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti
Managing Director





Audit report

To the Shareholders of
Telecom Italia Capital S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Telecom Italia Capital S.A., which comprise the balance sheet as at 31 December 2011, the profit and loss account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

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

Responsibility of the "Réviseur d'entreprises agréé"

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

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

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



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Telecom Italia Capital S.A. as of 31 December 2011, and of the results of its operations and its cash flow for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers S.à r.l.
Represented by

Luxembourg, 23 March 2012

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

Fabrice Goffin

Desisions taken during the Annual General Meeting held on April 4, 2012

The shareholders:

- a) approved the financials as of December 31, 2011, which comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.
- b) approved the proposal to allocate the loss of the year 2011, amounting to EUR 1.333.462,56, to the profit and loss brought forward which shall be reduced from EUR 12.879.754,13 to EUR 11.546.291,57.
- c) approved the proposal to reallocate EUR 705.900,00 from the profit and loss brought forward to the net wealth tax reserve. Following art 8a of the law October 16, 1934, as modified, which authorizes the Company to deduct net wealth tax from its own basis, the new created reserve is equal to five (5) times the amount of the net wealth tax to be paid for year 2011 (EUR 141.180,00) and shall be kept unavailable for five year starting from the year immediately following the one in which the reserve has been created.
- d) Discharged all the Directors for their activity till the date of the current shareholders meeting.
- e) Appointed for a three year period (2012/13/14), the following persons as Board members:
 - Mr Andrea Balzarini, born on September 19, 1970 in Bollate (Italy), domiciled in Milano, Piazza degli Affari 2, 20123;
 - Ms Chiara Elena Maria Pizzamiglio born in Milano (Italy) on July 17, 1966, and domiciled in Milano, Piazza degli Affari 2, 1-;
 - Mr Jacques Loesch, born on April 9, 1928 in Luxembourg, domiciled in Luxembourg 35, Avenue John F. Kennedy, 1855;
 - Mr Adriano Trapletti, born on May 25, 1953 in Alzano Lombardo (Italy), domiciled in Luxembourg, 12 rue Eugène Ruppert, 2453;
 - Mr Antonio Sica, born on May 27, 1964 in Cuneo (Italy), domiciled in Luxembourg, 12 rue Eugène Ruppert, 2453

The aforesaid members will remain in charge till the annual general shareholders meeting which will take place in 2015.