



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, 2014, which have
been authorized by the Board of
Directors held on February 27, 2015

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Directors' report

Dear Shareholder,

Telecom Italia Capital (herein defined as well as the "Company" or "TI Capital") ends the year 2014 with a loss of EUR 16.554.515,76 (loss of EUR 8.870.158,47 for 2013).

The result of the period is impacted by fees paid in connection with the novation of a number of derivatives agreements entered to cover both interest rate and currency exchange risk. The cost involved amounting to EUR 18,0 million (EUR 10,9 million in 2013) are not deductible for tax purposes.

The contribution of the on-going borrowing and lending activity is positive for EUR 2,5 million (EUR 3,5 million in 2013).

The net financial position as of December 31, 2014 is positive for EUR 5,9 million (EUR 24,5 million as of December 31, 2013).

Notes

On June 18, 2014 notes of USD 1.000.000.000,00, 6,175%, issued on June 18, 2009, matured and were repaid.

On September 30, 2014 notes of USD 1.250.000.000,00, 4,95%, issued on October 6, 2004, matured and were repaid.

As of December 31, 2014, the aggregate principal amount of the outstanding notes equals to USD 7.400.000.000,00 (USD 9.650.000.000,00 as of December 31, 2013). The proceeds of the aforesaid notes have been utilized to provide funding to Telecom Italia Group companies. All the notes are unconditionally and irrevocably guaranteed by the mother company Telecom Italia S.p.A.

Share Capital

As of December 31, 2014 the subscribed share capital amounts to EUR 2.336.000,00, consisting of 100.000 ordinary shares with a nominal value of EUR 23,36 per share.

Notwithstanding the aforementioned loss the net equity is positive for EUR 4.631.374,66 (EUR 21.185.890,42 as per December 2013).

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

Risks

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

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

Moreover, the Company is exposed to generic market, credit and liquidity risks:

- credit risk: representing the risk of non-fulfillment of obligations assumed by a counterparty in relation to lending and liquidity management activities;
- liquidity risk: related to the need to meet short-term financial liabilities.

The financial risks are managed through:

- the application of guidelines defined at Group level;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

Telecom Italia Capital is committed to the following Group organizational model:

- Definition of strategic guidelines: in charge of the Group Finance “Risk Committee” of which the CEO the Company is member.
- Execution activity: in charge of Telecom Italia Capital Front Office which, among others, implements such guidelines in coordination with the Group Treasurer.
- Group Financial Planning & Risk Control: any deviation from the guidelines is reported by the Group Financial Risk Controller to the Finance “Risk Committee”.

Additional details on internal control and financial risk management policies of Telecom Italia Group are available in the Telecom Italia S.p.A. consolidated accounts and related documents.

Events subsequent to December 31, 2014

During the year 2015 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and continue to manage the market risks related to the funding and investment activity.

On October 1, 2015 will mature and shall be repaid USD 1.400.000.000,00 5,25% notes, issued on September 28, 2005.

Financials as of December 31, 2014 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

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

- a) reallocate, considering that the five years unavailability period for tax purposes has expired, EUR 148.125,00 from “Other reserves” to “Profit and loss brought forward” which shall be increased up to EUR 5.615.054,03;
- b) allocate the loss of the year 2014 amounting to EUR 16.554.515,76 to “Profit and loss brought forward” which shall be reduced to nihil; and per the difference to the “Share premium and similar premiums” which shall be reduced to EUR 871.234,66.

For the Board of Directors
The Managing Director
Adriano Trapletti

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Balance Sheet - Assets

| TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT DECEMBER 31,2014 | | | |
|--|-----|-------------------------|-------------------------|
| ASSETS - [EUR] | | 31.DECEMBER.2014 | 31.DECEMBER.2013 |
| A. Subscribed capital unpaid | | 0,00 | 0,00 |
| I. Subscribed capital not called | | 0,00 | 0,00 |
| II. Subscribed capital called but unpaid | | 0,00 | 0,00 |
| B. Formation expenses | [3] | 21.484.328,29 | 22.176.057,06 |
| C. Fixed assets | | 4.411.574.752,59 | 5.422.229.949,36 |
| I. Intangible fixed assets | | | |
| 1. Research and development costs | | 0,00 | 0,00 |
| 2. Concessions, patents, licenses, trade marks and similar rights and assets, if they were | | | |
| a) acquired for valuable consideration and need not be shown under C.I.3. | | 0,00 | 0,00 |
| b) created by the undertaking itself | | 0,00 | 0,00 |
| 3. Goodwill, to the extent that it was acquired for valuable consideration | | 0,00 | 0,00 |
| 4. Payments on account and intangible fixed assets under development | | 0,00 | 0,00 |
| II. Tangible fixed assets | | | |
| 1. Land and buildings | | 0,00 | 0,00 |
| 2. Plant and machinery | | 0,00 | 0,00 |
| 3. Other fixtures and fittings, tools and equipment | | 0,00 | 0,00 |
| 4. Payments on account and tangible fixed assets under development | | 0,00 | 0,00 |
| III. Financial fixed assets | | | |
| 1. Shares in affiliated undertakings | | 0,00 | 0,00 |
| 2. Amounts owed by affiliated undertakings | [4] | 4.411.574.752,59 | 5.422.229.949,36 |
| 3. Shares in undertakings with which the undertaking is linked by virtue of participating interests | | 0,00 | 0,00 |
| 4. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests | | 0,00 | 0,00 |
| 5. Securities and other financial instruments held as fixed assets | | 0,00 | 0,00 |
| 6. Loans and claims held as fixed assets | | 0,00 | 0,00 |
| 7. Own shares or own corporate units | | 0,00 | 0,00 |
| D. Current assets | | 1.779.409.910,66 | 2.069.024.029,58 |
| I. Inventories | | 0,00 | 0,00 |
| 1. Raw materials and consumables | | 0,00 | 0,00 |
| 2. Work and contracts in progress | | 0,00 | 0,00 |
| 3. Finished goods and merchandise | | 0,00 | 0,00 |
| 4. Payments on account | | 0,00 | 0,00 |
| II. Debtors | | 0,00 | 0,00 |
| 1. Trade receivables | | 0,00 | 0,00 |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 2. Amounts owed by affiliated undertakings | [5] | 0,00 | 0,00 |
| a) becoming due and payable within one year | | 1.253.110.546,94 | 1.895.538.883,88 |
| b) becoming due and payable after more than one year | | 523.348.272,27 | 170.176.479,98 |
| 3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests | | 0,00 | 0,00 |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 4. Other receivables | | 0,00 | 0,00 |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| III. Transferable securities and other financial instruments | | 0,00 | 0,00 |
| 1. Shares in affiliated undertakings and in undertakings with which the undertaking is linked by virtue of participating interests | | 0,00 | 0,00 |
| 2. Own shares or own corporate units | | 0,00 | 0,00 |
| 3. Other transferable securities and other financial instruments | | 0,00 | 0,00 |
| IV. Cash at bank, cash in postal cheque accounts, cheques and cash in hand | [6] | 2.951.091,45 | 3.308.665,72 |
| E. Prepayments | | 1.587.365,97 | 1.960.593,27 |
| TOTAL ASSETS | | 6.214.056.357,51 | 7.515.390.629,27 |

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

Balance Sheet - Liabilities

| TELECOM ITALIA CAPITAL SOCIETE ANONYME | | | |
|---|------|-------------------------|-------------------------|
| BALANCE SHEET AS AT DECEMBER 31,2014 | | | |
| LIABILITIES - [EUR] | | 31.DECEMBER.2014 | 31.DECEMBER.2013 |
| A. Capital and reserves | | 4.631.374,66 | 21.185.890,42 |
| I. Subscribed capital | [7] | 2.336.000,00 | 2.336.000,00 |
| II. Share premium and similar premiums | [8] | 11.810.696,39 | 11.810.696,39 |
| III. Revaluation reserves | | 0,00 | 0,00 |
| IV. Reserves | [9] | | |
| 1. Legal reserve | | 234.000,00 | 234.000,00 |
| 2. Reserve for own shares or own corporate units | | 0,00 | 0,00 |
| 3. Reserves provided for by the articles of association | | 0,00 | 0,00 |
| 4. Other reserves | | 1.338.265,00 | 1.371.850,00 |
| V. Profit or loss brought forward | | 5.466.929,03 | 14.303.502,50 |
| VI. Profit or loss for the financial year | | -16.554.515,76 | -8.870.158,47 |
| VII. Interim dividends | | 0,00 | 0,00 |
| VIII. Capital investment subsidies | | 0,00 | 0,00 |
| IX. Temporarily not taxable capital gains | | 0,00 | 0,00 |
| B. Subordinated debts | | 0,00 | 0,00 |
| 1. Convertible loans | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 2. Non convertible loans | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| C. Provisions | | 657.393,92 | 2.626.294,76 |
| 1. Provisions for pensions and similar obligations | | 0,00 | 0,00 |
| 2. Provisions for taxation | [10] | 657.393,92 | 2.626.294,76 |
| 3. Other provisions | | 0,00 | 0,00 |
| D. Non Subordinated debts | | 6.208.767.588,93 | 7.491.578.444,09 |
| 1. Debenture loans | | | |
| a) Convertible loans | | | |
| i) becoming due and payable within one year | | 0,00 | 0,00 |
| ii) becoming due and payable after more than one year | | 0,00 | 0,00 |
| b) Non convertible loans | [11] | | |
| i) becoming due and payable within one year | | 1.224.460.289,31 | 1.706.867.440,36 |
| ii) becoming due and payable after more than one year | | 4.931.874.762,29 | 5.356.020.530,79 |
| 2. Amounts owed to credit institutions | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 3. Payments received on account of orders as far as they are not deducted distinctly from inventories | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 4. Trade creditors | | | |
| a) becoming due and payable within one year | | 415.083,89 | 578.629,53 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 5. Bills of exchange payable | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 6. Amounts owed to affiliated undertakings | [12] | | |
| a) becoming due and payable within one year | | 27.484.235,83 | 135.236.762,51 |
| b) becoming due and payable after more than one year | | 24.529.072,84 | 292.868.524,32 |
| 7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| 8. Tax and social security debts | | | |
| a) Tax debts | | 0,00 | 0,00 |
| b) Social security debts | | 4.144,77 | 6.556,58 |
| 9. Other creditors | | | |
| a) becoming due and payable within one year | | 0,00 | 0,00 |
| b) becoming due and payable after more than one year | | 0,00 | 0,00 |
| E. Deferred income | | 0,00 | 0,00 |
| TOTAL LIABILITIES | | 6.214.056.357,51 | 7.515.390.629,27 |

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

Telecom Italia Capital
Société Anonyme

Audited Annual Accounts as at December 31,2014

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Profit and Loss

| TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT DECEMBER 31, 2014 | | | | | |
|--|---------------------|------------------|--|---------------------|------------------|
| A. CHARGES - [EUR] | | | B. INCOME - [EUR] | | |
| | 31.DECEMBER.2014 | 31.DECEMBER.2013 | | 31.DECEMBER.2014 | 31.DECEMBER.2013 |
| 1. Use of merchandise, raw materials and consumable materials | 58,19 | 0,00 | 1. Net turnover | 0,00 | 0,00 |
| 2. Other external charges | 333.945,62 | 662.370,86 | 2. Change in inventories of finished goods and of work and contracts in progress | 0,00 | 0,00 |
| 3. Staff costs | 211.439,48 | 225.882,99 | 3. Fixed assets under development | 0,00 | 0,00 |
| a) Salaries and wages | 183.386,11 | 196.964,42 | | | |
| b) Social security on salaries and wages | 22.808,95 | 24.400,35 | 4. Reversal of value adjustments | 0,00 | 0,00 |
| c) Supplementary pension costs | 4.324,88 | 3.274,32 | a) on formation expenses and on tangible and intangible fixed assets | 0,00 | 0,00 |
| d) Other social costs | 919,54 | 1.243,90 | b) on current assets | 0,00 | 0,00 |
| 4. Value adjustments | 2.524.338,21 | 3.486.812,80 | 5. Other operating income | 0,00 | 0,00 |
| a) on formation expenses and on tangible and intangible fixed assets | 2.524.338,21 | 3.486.812,80 | 6. Income from financial fixed assets | [14] 223.532.742,28 | 263.322.803,07 |
| b) on current assets | 0,00 | 0,00 | a) derived from affiliated undertakings | 223.532.742,28 | 263.322.803,07 |
| 5. Other operating charges | 119.376,56 | 115.629,06 | b) other income from participating interests | 0,00 | 0,00 |
| 6. Value adjustments and fair value adjustments on financial fixed assets | 0,00 | 0,00 | 7. Income from financial current assets | 0,00 | 0,00 |
| 7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities | 0,00 | 0,00 | a) derived from affiliated undertakings | 0,00 | 0,00 |
| 8. Interest and other financial charges | [13] 760.396.332,61 | 1.467.091.300,58 | b) other income from financial current assets | 0,00 | 0,00 |
| a) concerning affiliated undertakings | 317.245.069,69 | 937.281.172,39 | 8. Other interest and other financial income | [15] 524.137.079,92 | 1.200.271.465,00 |
| b) other interest and similar financial charges | 443.151.262,92 | 529.810.128,19 | a) derived from affiliated undertakings | 520.819.512,76 | 1.198.650.848,83 |
| 9. Share of losses of undertakings accounted for under the equity method | 0,00 | 0,00 | b) other interest and similar financial income | 3.317.567,16 | 1.620.616,17 |
| 10. Extraordinary charges | 0,00 | 0,00 | 9. Share of profits of undertakings accounted for under the equity method | 0,00 | 0,00 |
| 11. Income tax | 658.811,82 | 863.872,25 | 10. Extraordinary income | 505,25 | 0,00 |
| 12. Other taxes not included in the previous caption | -19.459,28 | 18.558,00 | 13. Loss for the financial year | 16.554.515,76 | 8.870.158,47 |
| 13. Profit for the financial year | 0,00 | 0,00 | TOTAL INCOME | 764.224.843,21 | 1.472.464.426,54 |
| TOTAL CHARGES | 764.224.843,21 | 1.472.464.426,54 | | | |

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

Cash Flow Statement

| TELECOM ITALIA CAPITAL SOCIETE ANONYME | | |
|--|--------------------------|--------------------------|
| CASH FLOW STATEMENT AS AT DECEMBER 31, 2014 | | |
| | Note 31.DECEMBER.2014 | 31.DECEMBER.2013 |
| Operating Activities | | |
| Profit/Loss before tax | -15.895.703,94 | -8.006.286,22 |
| Adjustments for | | |
| Amortization of formation expenses and on tangible and intangible fixed assets | 2.524.338,21 | 3.486.812,80 |
| Finance Income | -747.669.822,20 | -1.463.594.268,07 |
| Finance Expenses | 758.549.808,43 | 1.464.992.552,45 |
| Changes in trade and other receivables | 397.762,55 | 490.211,05 |
| Changes in trade and other payables | -428.796,84 | -159.430,01 |
| Income Taxes Paid | -2.616.714,40 | -3.210,00 |
| Net cash flows from operating activities | -5.139.128,19 | -2.793.618,00 |
| Cash flows from Investing activities | | |
| Investments and re-payments in Financial Receivables | 1.746.200.001,10 | 1.490.084.101,04 |
| Interest, commissions and other financial income received | 753.778.554,23 | 1.478.510.494,14 |
| Dividends received | 0,00 | 0,00 |
| Income received from participations and funds | 0,00 | 0,00 |
| Net cash flows from investing activities | 2.499.978.555,33 | 2.968.594.595,18 |
| Cash flows from Financing activities | | |
| Repayments of borrowings | -1.732.133.723,94 | -1.489.892.630,02 |
| Interest, commissions and other financial expenses paid | -763.131.703,80 | -1.477.847.243,25 |
| Dividends paid | 0,00 | 0,00 |
| Net cash flows from financing activities | -2.495.265.427,74 | -2.967.739.873,27 |
| Net Increase / Decrease in Cash and Cash Equivalents | -426.000,60 | -1.938.896,09 |
| Net foreign exchange differences in C&CE | 68.329,33 | 146.132,39 |
| Cash and cash equivalents at 01 January | 3.308.615,72 | 5.101.379,42 |
| Cash and cash equivalents at the end of the year | [6] 2.950.944,45 | 3.308.615,72 |

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

Notes to the annual accounts

as at December 31, 2014, which have been authorized by the Board of Directors held on February 27, 2015

Note 1 – General information

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

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

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

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

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

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

Note 2 – Summary of significant accounting policies

Basis of preparation

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

As allowed by the amended law of December 19, 2002, the Board of Directors of the Company has decided to include the cash flow statement based on the indirect method.

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

Use of estimates

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

Foreign currency translation

The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into EUR at the balance sheet date.

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

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

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

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

The exchange rate used to convert as of December 31, 2014 the operations in USD into EUR is the following: 1 EUR= 1,21410 USD.

Formation expenses

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

Financial fixed assets

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

Debtors

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

Cash at bank, cash in postal cheque accounts, cheques and cash in hand

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

Accrued interest

Accrued interest are shown with their principal amount.

Prepayments/Deferred income

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

Derivative instruments

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

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

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

Non subordinated debts

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

Provisions

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

Note 3 – Formation expenses

Movements for the year on formation expenses items are as follows:

| | <i>Incorporation costs EUR</i> | <i>Bond issuance expenses EUR</i> | <i>Total formation expenses EUR</i> |
|---------------------------------|--|---|---|
| Balance as at 31.12.2013 | 1.673,18 | 22.174.383,88 | 22.176.057,06 |
| <hr/> | | | |
| Movements of the year | | | |
| Depreciation during the year | -1.673,18 | -2.522.665,03 | -2.524.338,21 |
| Exchange rate impact | 0,00 | 1.832.609,44 | 1.832.609,44 |
| <hr/> | | | |
| Balance as at 31.12.2014 | 0,00 | 21.484.328,29 | 21.484.328,29 |

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

This item is composed by EUR 4.411.574.752,59 (EUR 5.422.229.949,36 as per December 31, 2013) being the total amount of medium-long term loans granted to Telecom Italia S.p.A. (the “Parent Company”) utilizing the proceeds received by issuing notes.

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|---|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Nominal value: EUR 83.000.000,00 Expiring November 02, 2015 Floater rate: Euribor 6m + 2,06660% | <i>Classified in short term portion</i> | 83.000.000,00 |
| Nominal value: EUR 250.000.000,00 Expiring March 15, 2018 Floater rate: Euribor 6m + 1,89110% | 250.000.000,00 | 0,00 |
| Nominal value: EUR 1.816.000.000,00 Expiring September 30, 2019 ^[*] Floater rate: Euribor 6m + 0,87870% | 539.800.000,00 | 1.816.000.000,00 |
| Nominal value: EUR 642.000.000,00 Expiring December 04, 2019 Fixed rate: 7,10320% | 642.000.000,00 | 642.000.000,00 |
| Nominal value: EUR 700.000.000,00 Expiring December 18, 2019 Fixed rate: 6,78656% | 700.000.000,00 | 700.000.000,00 |
| Nominal value: EUR 20.000.000,00 Expiring December 18, 2019 Fixed rate: 6,78656% | 20.000.000,00 | 20.000.000,00 |
| Nominal value: USD 1.000.000.000,00 Expiring November 15, 2034 ^[**] Floater rate: USDLibor 3m + 1,10000% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: EUR 791.119.370,00 Expiring January 18, 2037 Floater rate: Euribor 6m + 1,45969% | 791.119.370,00 | 791.119.370,00 |
| Nominal value: EUR 645.000.000,00 Expiring December 05, 2039 Fixed rate: 7,53220% | 645.000.000,00 | 645.000.000,00 |
| | 4.411.574.752,59 | 5.422.229.949,36 |

^[*] Differences between December 31, 2014 and December 31, 2013 are due to the partial repayment of the loan for the total amount of EUR 1.276.200.000,00 on September 30, 2014.

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

Note 5 – Debtors - Amounts owed by affiliated undertakings

a) *becoming due and payable within one year*

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------------|--|
| | <i>EUR</i> | <i>EUR</i> |
| Nominal value: EUR: 700.000.000,00 Reimbursed June 18, 2014 | | |
| Fixed rate: 5,94017% | 0,00 | 700.000.000,00 |
| Nominal value: EUR: 20.000.000,00 Reimbursed June 18, 2014 | | |
| Fixed rate: 5,94017% | 0,00 | 20.000.000,00 |
| Nominal value: EUR: 1.058.000.000,00 Expiring April 01, 2015 | | |
| Floater rate: USDLibor 6m + 0,73335% | 1.058.000.000,00 | 1.058.000.000,00 |
| Nominal value: EUR 83.000.000,00 Expiring November 02, 2015 | | |
| Floater rate: Euribor 6m + 2,06660% | 83.000.000,00 | <i>Classified in long term portion</i> |
| Accruals on long term loans with Parent Company | 22.754.080,39 | 27.843.449,65 |
| Short term loan with T.M.I. Telemedia International Limited | 6.500.000,00 | 6.500.000,00 |
| Accruals on short term loans with Group Companies | 91.996,35 | 92.998,45 |
| Accruals on derivatives with Parent Company | 61.909.274,72 | 65.012.013,50 |
| Accruals on derivatives with Group Companies | 9.736.845,76 | 10.970.370,39 |
| Currency swaps with Parent Company | 11.111.683,74 | 3.841.080,68 |
| Currency swaps with Group Companies | 6.665,98 | 3.278.971,21 |
| | <u>1.253.110.546,94</u> | <u>1.895.538.883,88</u> |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|-------------------------------------|------------------------------|------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Currency swaps with Parent Company | 360.481.575,94 | 96.000.106,55 |
| Currency swaps with Group Companies | 162.866.696,33 | 74.176.373,43 |
| | <u>523.348.272,27</u> | <u>170.176.479,98</u> |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Bank current accounts | 250.944,45 | 308.615,72 |
| Bank term deposit accounts | 2.700.000,00 | 3.000.000,00 |
| Cash and cash equivalent as shown in Cash Flow Statement | 2.950.944,45 | 3.308.615,72 |
| Accruals on bank term deposits | 147,00 | 50,00 |
| | 2.951.091,45 | 3.308.665,72 |

Note 7 – Subscribed capital

As of December 31, 2014 the authorized, issued and fully paid in share capital of EUR 2.336.000,00 is represented by 100.000 shares with a nominal value of EUR 23,36 per share.

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

Note 8 – Share premium and similar premiums

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

Note 9 – Reserves

Reserves are split as follows:

- Legal Reserve: the Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed. The legal reserve as at December 31, 2014 amounts to EUR 234.000,00 and equals 10% of the share capital. The reserve has been set up by the shareholders meeting as of March 2, 2005 by converting a portion of other unavailable reserves;

- Other reserves consist of Tax reserve for an amount of EUR 1.338.265,00 It has been created by the annual shareholders meetings held between the years 2009 and 2014 and is equal to five times the amount of the Net wealth tax to be paid for fiscal year 2008, 2010, 2011 and 2013. It will be unavailable for distribution for a five year period since the year following its creation and is detailed as below:

| | | |
|------------------|------------|---------------------|
| Fiscal year 2008 | EUR | 148.125,00 |
| Fiscal year 2010 | EUR | 407.500,00 |
| Fiscal year 2011 | EUR | 705.900,00 |
| Fiscal year 2013 | EUR | 76.740,00 |
| | EUR | 1.338.265,00 |

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

| | <i>Legal Reserve (EUR)</i> | <i>Other reserves (EUR)</i> | <i>Profit or loss brought forward (EUR)</i> | <i>Loss for the financial year (EUR)</i> |
|---|--------------------------------|---------------------------------|---|--|
| Balance as at 31.12.2013 | 234.000,00 | 1.371.850,00 | 14.303.502,50 | -8.870.158,47 |
| Movements for the year | | | | |
| Allocation of prior year's Profit or loss ^[*] | 0,00 | 0,00 | -8.870.158,47 | 8.870.158,47 |
| Reallocation of Reserve ^[*] | 0,00 | -33.585,00 | 33.585,00 | 0,00 |
| Profit or loss for the year | 0,00 | 0,00 | 0,00 | -16.554.515,76 |
| Balance as at 31.12.2014 | 234.000,00 | 1.338.265,00 | 5.466.929,03 | -16.554.515,76 |

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

Note 10 – Provisions for taxation

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|--------------------------|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Income tax | 619.992,00 | 2.577.894,58 |
| Value added tax | 2.760,52 | 4.501,20 |
| Chamber of Commerce fees | 33.591,00 | 24.434,91 |
| Net wealth tax | 0,00 | 18.558,00 |
| Other taxes | 1.050,40 | 906,07 |
| | 657.393,92 | 2.626.294,76 |

Note 11 – Non convertible loans

The Company has issued non-convertible notes for a total outstanding amount of USD 7.400.000.000,00 as at December 31, 2014 (December 31, 2013 – USD 9.650.000.000,00).

i) *becoming due and payable within one year*

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|--|--------------------------|--|
| | <i>EUR</i> | <i>EUR</i> |
| Nominal value: USD 1.000.000.000,00 Reimbursed June 18, 2014 | | |
| Fixed Interest Rate 6,1750% | 0,00 | 725.110.579,36 |
| Nominal value: USD 1.250.000.000,00 Reimbursed September 30, 2014 | | |
| Fixed Interest Rate 4,9500% | 0,00 | 906.388.224,20 |
| Nominal value: USD 1.400.000.000,00 Expiring October 01, 2015 | | |
| Fixed Interest Rate 5,2500% | 1.153.117.535,62 | <i>Classified in long term portion</i> |
| Issue discounts on notes <i>Current portion</i> | -1.071.769,20 | -1.340.056,09 |
| Accrued interest on notes | 72.414.522,89 | 76.708.692,89 |
| | 1.224.460.289,31 | 1.706.867.440,36 |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|---|--------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Nominal value: USD 1.400.000.000,00 Expiring October 01, 2015 Fixed Interest Rate 5,2500% | <i>Classified in short term portion</i> | 1.015.154.811,11 |
| Nominal value: USD 1.000.000.000,00 Expiring June 04, 2018 Fixed Interest Rate 6,9990% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: USD 1.000.000.000,00 Expiring June 18, 2019 Fixed Interest Rate 7,1750% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: USD 1.000.000.000,00 Expiring November 15, 2033 Fixed Interest Rate 6,3750% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: USD 1.000.000.000,00 Expiring September 30, 2034 Fixed Interest Rate 6,0000% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: USD 1.000.000.000,00 Expiring July 18, 2036 Fixed Interest Rate 7,2000% | 823.655.382,59 | 725.110.579,36 |
| Nominal value: USD 1.000.000.000,00 Expiring June 04, 2038 Fixed Interest Rate 7,7210% | 823.655.382,59 | 725.110.579,36 |
| Issue discounts on notes <i>Long term portion</i> | -10.057.533,25 | -9.797.756,48 |
| | <u>4.931.874.762,29</u> | <u>5.356.020.530,79</u> |

Note 12 – Amounts owed to affiliated undertakings

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

a) becoming due and payable within one year

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|--|-----------------------------|------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Guarantee fee due to Parent Company | 1.846.523,66 | 2.098.747,62 |
| Payable to Group Companies | 24.535,25 | 31.944,44 |
| Current portion of long term loans with Parent Company ^[*] | 2.166.474,10 | 2.389.574,00 |
| Current portion of long term loans with Group Companies ^[*] | 93.837,06 | 210.059,60 |
| Currency swaps with Parent Company | 2.886.284,12 | 105.067.529,95 |
| Currency swaps with Group Companies | 2.642,40 | 5.420,43 |
| Accruals on long term loans with Parent Company | 97.685,07 | 106.728,23 |
| Accruals on long term loans with Group Companies | 21.706,33 | 20.917,23 |
| Accruals on derivatives with Parent Company | 16.565.287,37 | 21.715.270,93 |
| Accruals on derivatives with Group Companies | 3.779.260,47 | 3.590.570,08 |
| | <u>27.484.235,83</u> | <u>135.236.762,51</u> |

b) becoming due and payable after more than one year

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|-----------------------------|------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Long term loans with Parent Company ^[*] | 21.608.633,72 | 20.925.731,07 |
| Long term loans with Group Companies ^[*] | 2.920.439,12 | 2.653.244,52 |
| Currency swaps with Parent Company | 0,00 | 269.289.548,73 |
| | <u>24.529.072,84</u> | <u>292.868.524,32</u> |

[*] Those items refer to the bank loans used to fund issuance costs for notes released from 2003 to 2006. Loans have a quarterly amortizing period. Due to shifting of bank counterparties to Parent and Group Companies the loans have been classified in “Amounts owed to affiliated undertakings” . The residual nominal amount of loans is split as follows:

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|--|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Related to notes issued as of October 29, 2003 for an initial amount of USD 31.300.000,00: | | |
| Final payment date: | | |
| November 15, 2033 | 8.574.202,29 | 7.777.624,16 |
| Nominal residual amount | 8.574.202,29 | 7.777.624,16 |
| Related to notes issued as of October 6, 2004 for an initial amount of USD 35.652.500,00: | | |
| Final payment date: | | |
| September 30, 2014 | 0,00 | 659.734,46 |
| September 29, 2034 | 11.823.604,46 | 10.723.107,73 |
| Nominal residual amount | 11.823.604,46 | 11.382.842,19 |
| Related to notes issued as of September 28, 2005 for an initial amount of USD 19.684.000,00: | | |
| Final payment date: | | |
| October 01, 2015 | 1.470.629,24 | 2.567.269,88 |
| Nominal residual amount | 1.470.629,24 | 2.567.269,88 |
| Related to notes issued as of July 18, 2006 for an initial amount of USD 14.036.250,00: | | |
| Final payment date: | | |
| July 18, 2036 | 4.920.948,02 | 4.450.872,96 |
| Nominal residual amount | 4.920.948,02 | 4.450.872,96 |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Charges on loans with Parent Company | 1.110.027,67 | 1.273.018,86 |
| Charges on loans with Group Companies | 141.757,35 | 174.589,38 |
| Interest due to Group Companies | 230.273,65 | 57.043,17 |
| Guarantee fee due to Parent Company | 1.846.524,18 | 2.098.748,13 |
| Other fees due to Group Companies | 208.489,89 | 248.962,76 |
| Charges on derivatives with Parent Company | 244.336.116,00 | 792.930.569,01 |
| Charges on derivatives with Group Companies | 50.443.876,06 | 129.397.800,21 |
| Novation fees on derivatives with Parent Company | 17.791.666,67 | 11.100.000,00 |
| Novation fees on derivatives with Group Companies | 1.135.947,23 | 0,00 |
| Charges on currency swaps with Group Companies | 390,99 | 440,87 |
| | 317.245.069,69 | 937.281.172,39 |

b) other interest and similar financial charges

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest and charges vs. banks | 0,22 | 80,08 |
| Other financial commissions | 1.667,91 | 2.267,93 |
| Interest and similar expenses on debentures | 439.832.563,61 | 528.331.123,27 |
| Charges on currency swaps with banks | 0,00 | 146,38 |
| Losses on exchange rates | 3.317.031,18 | 1.476.510,53 |
| | 443.151.262,92 | 529.810.128,19 |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest on long term loans to Parent Company | 223.532.742,28 | 263.322.803,07 |
| | 223.532.742,28 | 263.322.803,07 |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|--|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest and commissions on receivables from Group Companies | 222.210,63 | 221.984,82 |
| Income on derivatives with Parent Company | 448.240.950,12 | 951.123.852,63 |
| Income on derivatives with Group Companies | 71.455.671,63 | 247.168.385,56 |
| Income on currency swaps with Group Companies | 680,38 | 400,50 |
| Novation fees on derivatives with Parent Company | 0,00 | 60.000,00 |
| Novation fees on derivatives with Group Companies | 900.000,00 | 76.225,32 |
| | 520.819.512,76 | 1.198.650.848,83 |

b) other interest and similar financial income

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---------------------------|--------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest on Bank deposits | 467,33 | 829,15 |
| Gain on exchange rates | 3.317.099,83 | 1.619.787,02 |
| | 3.317.567,16 | 1.620.616,17 |

Note 16 – Hedging contracts and other derivative agreements

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------------|---------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Cross Currency Interest Swap (CCIRS) contracts with Parent Company | 4.088.255.670,19 | 5.712.845.236,93 |
| Cross Currency Interest Swap (CCIRS) contracts with Group Companies | 651.565.106,44 | 756.423.148,00 |
| Interest Rate Swap (IRS) contracts with Parent Company | 3.727.040.606,21 | 4.006.235.950,98 |
| Interest Rate Swap (IRS) contracts with Group Companies | 391.236.306,73 | 525.705.170,04 |
| Foreign exchange agreements with Group Companies | 707.055,71 | 568.717,97 |
| | <u>8.858.804.745,28</u> | <u>11.001.778.223,92</u> |

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

| | <i>December 31, 2014</i> | <i>December 31, 2013</i> |
|---|--------------------------------|------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Cross Currency Interest Swap (CCIRS) contracts with Parent Company | 179.064.603,77 | -473.566.433,80 |
| Cross Currency Interest Swap (CCIRS) contracts with Group Companies | 79.515.331,01 | -10.413.716,45 |
| Interest Rate Swap (IRS) contracts with Parent Company | 940.008.144,01 | 554.943.573,00 |
| Interest Rate Swap (IRS) contracts with Group Companies | 178.519.726,27 | 92.429.690,42 |
| Foreign exchange agreements with Group Companies | 4.113,04 | -4.090,52 |
| | <u>1.377.111.918,10</u> | <u>163.389.022,65</u> |

Note 17 – Tax situation

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

Note 18 – Consolidation

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A. which are available at the registered office located in Milano, via Negri 1 and on the website <http://www.telecomitalia.com>

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

Note 19 – Directors remuneration

The Directors have not been remunerated in their capacity as Director during the year 2014.

Note 20 – Staff

As of December 31, 2014 the Company has 3 employees on its payroll (December 31, 2013 – 3). The average of employees during the fiscal year has been of 3 resources (2013 – 3,58).

Note 21 – Litigation

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

Note 22 – Auditor's fees

During the fiscal year 2014 a total of EUR 31.072,62 (VAT excluded) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (2013 – EUR 53.417,40). No other amount has been paid to the Auditor.

Declaration of the manager responsible for financial reporting

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual account 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, 2014, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti
Managing Director



Audit report

To the Shareholder 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 2014, 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 2014, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 30 March 2015

A handwritten signature in black ink, appearing to read 'F. Goffin', written over a horizontal line.

Fabrice Goffin