



2016 Annual Report

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, 2016, which have been authorized by the Board of Directors held on February 16, 2017

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Directors' report

Dear Shareholder,

Telecom Italia Capital (herein defined as well as the "Company" or "TI Capital") ends the year 2016 with a profit of EUR 1.134.837,86 (versus a profit of EUR 3.721.508,19 as of December 31, 2015).

The 2015 result included non-recurrent profits worth EUR 2,3 million related to the novation of a derivative agreement entered to cover both interest rate and currency exchange risk.

The contribution of the on-going borrowing and lending activity is positive for EUR 1,9 million (EUR 2,4 million in 2015). The reduced margin contribution is due to an average lower lending volume vis-à-vis 2015.

The net financial position as of December 31, 2016 is positive for EUR 10,6 million (EUR 10,3 million as of December 31, 2015).

Notes

As of December 31, 2016, the aggregate principal amount of the outstanding notes equals to USD 6.000.000.000,00 (same amount as of December 31, 2015). The proceeds of the 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, 2016 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.

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, 2016

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

During the year 2017, 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.

The Company does not perform research and development activities. The Company did not acquire and does not hold its own shares.

Financials as of December 31, 2016 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 financial statements herein reported and proposes to:

1. allocate the profit of the year 2016 amounting to EUR 1.134.837,86 to "Profit or loss brought forward";
2. reallocate, considering that the five years unavailability period for tax purposes has expired, EUR 407.500,00 from "Other reserves" to "Profit or loss brought forward" which shall be increased accordingly.

For the Board of Directors
The Managing Director Adriano Trapletti

Annual Accounts

Balance Sheet – Assets

TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT DECEMBER 31,2016		
ASSETS - [EUR]	31.DECEMBER.2016	31.DECEMBER.2015
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]	19.957.446,42	21.120.559,19
C. Fixed assets	4.536.595.966,15	4.506.446.053,20
I. Intangible assets		
1. Costs of development	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 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 assets in the course of construction	0,00	0,00
III. Financial assets		
1. Shares in affiliated undertakings	0,00	0,00
2. Amounts owed by affiliated undertakings	4.536.595.966,15	4.506.446.053,20
3. Participating interests	0,00	0,00
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests	0,00	0,00
5. Investments held as fixed	0,00	0,00
6. Other loans	0,00	0,00
D. Current assets	1.243.248.800,68	1.090.430.921,23
I. Stocks		
1. Raw materials and consumables	0,00	0,00
2. Work in progress	0,00	0,00
3. Finished good and goods for resale	0,00	0,00
4. Payments on account	0,00	0,00
II. Debtors		
1. Trade debtors		
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		
a) becoming due and payable within one year	88.952.755,46	89.024.165,18
b) becoming due and payable after more than one year	1.148.454.339,73	997.704.774,99
3. Amounts owed by 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
4. Other debtors		
a) becoming due and payable within one year	1.608,84	17.805,55
b) becoming due and payable after more than one year	0,00	0,00
III. Investments		
1. Shares in affiliated undertakings	0,00	0,00
2. Own shares	0,00	0,00
3. Other investments	0,00	0,00
IV. Cash at bank and in hand	5.840.096,65	3.684.175,51
E. Prepayments	1.237.395,12	1.366.346,06
TOTAL ASSETS	5.801.039.608,37	5.619.363.879,68

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

Balance Sheet – Liabilities

TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT DECEMBER 31,2016			
LIABILITIES - [EUR]		31.DECEMBER.2016	31.DECEMBER.2015
A. Capital and reserves		9.487.720,71	8.352.882,85
I. Subscribed capital	[7]	2.336.000,00	2.336.000,00
II. Share premium account	[8]	871.234,66	871.234,66
III. Revaluation reserves		0,00	0,00
IV. Reserves	[9]		
1. Legal reserve		234.000,00	234.000,00
2. Reserve for own shares		0,00	0,00
3. Reserves provided for by the articles of association		0,00	0,00
4. Other reserves, including the fair value reserve			
a) other available reserves		0,00	0,00
b) other non available reserves		1.190.140,00	1.190.140,00
V. Profit or loss brought forward		3.721.508,19	0,00
VI. Profit or loss for the financial year		1.134.837,86	3.721.508,19
VII. Interim dividends		0,00	0,00
VIII. Capital investment subsidies		0,00	0,00
B. Provisions		517.654,99	1.262.256,88
1. Provisions for pensions and similar obligations		0,00	0,00
2. Provisions for taxation	[10]	517.654,99	1.262.256,88
3. Other provisions		0,00	0,00
C. Creditors		5.791.034.232,67	5.609.748.739,95
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		65.366.840,35	63.289.415,23
ii) becoming due and payable after more than one year		5.681.690.276,36	5.500.532.226,20
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 in so far as they are shown separa			
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		361.063,29	381.381,64
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		17.321.969,52	19.115.050,98
b) becoming due and payable after more than one year		26.294.083,15	26.430.665,90
7. Amounts owed to undertakings with which the undertaking is linked by virtu			
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. Other creditors			
a) Tax authorities		0,00	0,00
b) Social security authorities		0,00	0,00
c) Other creditors			
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
D. Deferred income		0,00	0,00
TOTAL LIABILITIES		5.801.039.608,37	5.619.363.879,68

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

Profit & Loss

TELECOM ITALIA CAPITAL SOCIETE ANONYME PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31,2016		
[EUR]	31.DECEMBER.2016	31.DECEMBER.2015
1. Net turnover	0,00	0,00
2. Variation in stocks of finished goods and in work in progress	0,00	0,00
3. Work performed by the undertaking for its own purposes and capitalised	0,00	0,00
4. Other operating income	0,00	0,00
5. Raw materials and consumables and other external expenses	0,00	0,00
a) Raw materials and consumables	0,00	0,00
b) Other external expenses	0,00	0,00
6. Staff costs	135.283,45	147.311,57
a) Wages and salaries	117.590,18	126.673,52
b) Social security costs	17.693,27	20.638,05
i) relating to pensions	2.613,58	3.983,73
ii) other social security costs	15.079,69	16.654,32
7. Value adjustments	1.629.184,76	2.052.804,01
a) in respect of formation expenses and of tangible and intangible fixed assets	1.629.184,76	2.052.804,01
b) in respect of current assets	0,00	0,00
8. Other operating expenses	346.839,66	413.550,24
9. Income from participating interests	0,00	0,00
a) derived from affiliated undertakings	0,00	0,00
b) other income from participating interests	0,00	0,00
10. Income from other investments and loans forming part of the fixed assets [13]	181.373.297,31	189.190.343,87
a) derived from affiliated undertakings	181.373.297,31	189.190.343,87
b) other income not included under a)	0,00	0,00
11. Other interest receivable and similar income [14]	429.360.151,89	492.114.839,52
a) derived from affiliated undertakings	428.405.484,17	489.016.097,80
b) other interest and similar income	954.667,72	3.098.741,72
12. Share of profit or loss of undertakings accounted for under the equity method	0,00	0,00
13. Value adjustments in respect of financial assets and of investments held as current asse	0,00	0,00
14. Interest payable and similar expenses [15]	607.023.842,20	674.364.261,38
a) concerning affiliated undertakings	226.853.431,60	237.819.351,92
b) other interest and similar expenses	380.170.410,60	436.544.909,46
15. Tax on profit or loss	460.251,27	602.538,00
16. Profit or loss after taxation	1.138.047,86	3.724.718,19
17. Other taxes not shown under items 1 to 16	3.210,00	3.210,00
18. Profit or loss for the financial year	1.134.837,86	3.721.508,19

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, 2016		
[EUR]	31.DECEMBER.2016	31.DECEMBER.2015
Operating Activities		
Profit/Loss before tax	1.595.089,13	4.324.046,19
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	1.629.184,76	2.052.804,01
Finance Income	-610.733.449,20	-681.305.183,39
Finance Expenses	605.505.959,64	672.611.925,55
Changes in trade and other receivables	144.354,56	205.609,91
Changes in trade and other payables	-246.097,44	-129.599,21
Income Taxes Paid	-1.213.265,02	-3.210,00
Net cash flows from operating activities	-3.318.223,57	-2.243.606,94
Cash flows from Investing activities		
Investments and re-payments in Financial Receivables	500.000,00	1.139.775.464,75
Interest, commissions and other financial income received	607.838.499,28	691.373.446,79
Net cash flows from investing activities	608.338.499,28	1.831.148.911,54
Cash flows from Financing activities		
Repayments of borrowings	-1.112.282,17	-1.147.343.880,80
Interest, commissions and other financial expenses paid	-601.993.981,15	-680.925.186,95
Net cash flows from financing activities	-602.904.630,10	-1.828.269.067,75
Net Increase / Decrease in Cash and Cash Equivalents	2.115.645,61	636.236,85
Net foreign exchange differences in C&CE	38.621,28	96.994,21
Cash and cash equivalents at 01 January	3.684.175,51	2.950.944,45
Cash and cash equivalents at the end of the period [6]	5.838.442,40	3.684.175,51

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

Notes to the Annual Accounts

as at December 31, 2016, which have been authorized by the Board of Directors held on February 16, 2017

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 “Interest payable and similar expenses/Other interest receivable and similar 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, 2016 the operations in USD into EUR is the following: 1 EUR = 1,05410 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

Equity investments and securities held as fixed assets in non-current assets are evaluated according to the historical cost method. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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, 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.

Provisions for taxation

Provisions for taxation corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years are recorded under the caption “Provisions for taxation”.

Presentation of the comparative financial data

Following the amendment of the Luxembourgish Law of 19 December 2002, adopted on 18 December 2015, some figures for the year ended 31 December 2015 have been reclassified to ensure comparability with the figures for the year ended 31 December 2016.

Note 3 – Formation expenses

Formation expenses are composed by bond issuance expenses. Movements for the period on this item are as follows:

EUR	Total formation expenses
Balance as at 31.12.2015	21.120.559,19
Depreciation during the period	-1.629.184,76
Exchange rate impact	466.071,99
Balance as at 31.12.2016	19.957.446,42

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

This item is composed by EUR 4.536.595.966,15 (EUR 4.506.446.053,20 as per December 31, 2015) 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	December 31, 2016	December 31, 2015
Nominal value: EUR 250.000.000,00 Expiring March 15, 2018 Floater rate: Euribor 6m + 1,89110%	250.000.000,00	250.000.000,00
Nominal value: EUR 539.800.000,00 Expiring September 30, 2019 Floater rate: Euribor 6m + 0,87870%	539.800.000,00	539.800.000,00
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%	948.676.596,15	918.526.683,20
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
	4.536.595.966,15	4.506.446.053,20

[*] Differences between December 31, 2016 and December 31, 2015 are due to exchange rate impact.

Note 5 – Debtors - Amounts owed by affiliated undertakings

a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Accruals on long term loans with Parent Company	18.006.698,87	18.917.487,84
Short term loan with T.M.I. Telemedia International Limited	7.200.000,00	7.700.000,00
Accruals on short term loans with Group Companies	2.418,79	538,70
Accruals on derivatives with Parent Company	53.003.853,25	51.788.765,20
Accruals on derivatives with Group Companies	10.739.784,55	10.614.307,20
Currency swaps with Group Companies	0,00	3.066,24
	88.952.755,46	89.024.165,18

b) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Currency swaps with Parent Company	857.983.585,88	737.172.885,01
Currency swaps with Group Companies	290.470.753,85	260.531.889,98
	1.148.454.339,73	997.704.774,99

Note 6 – Cash at bank and cash in hand

The item refers to bank current accounts for the total amount of EUR 5.840.096,65 (EUR 3.684.175,51 as per December 2015).

EUR	December 31, 2016	December 31, 2015
Bank current accounts	4.557.729,00	3.684.175,51
Bank term deposit accounts	1.280.713,40	0,00
Cash and cash equivalent as shown in Cash Flow Statement	5.838.442,40	3.684.175,51
Accruals on bank term deposits	1.654,25	0,00
	5.840.096,65	3.684.175,51

Note 7 – Subscribed capital

As of December 31, 2016 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, 2016 and December 31, 2015, the Company is 100% held by Telecom Italia S.p.A.

Note 8 – Share premium account

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. Later, in order to cover the loss of the year 2014, the shareholder meeting held on April 1, 2015 decided to allocate EUR 10.939.461,73 to “Profit and loss brought forward” reducing the “Share premium and similar premiums” to EUR 871.234,66.

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, 2016 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 1.190.140,00. It has been created by the annual shareholders' meetings held between the years 2011 and 2014 and is equal to five times the amount of the Net Wealth Tax to be paid for fiscal year 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:

Period	Values - EUR
Fiscal year 2010	407.500,00
Fiscal year 2011	705.900,00
Fiscal year 2013	76.740,00
	1.190.140,00

Movements for the year on the reserves, share premium and similar premiums and profit and loss items are as follows:

	Share premium (EUR)	Legal Reserve (EUR)	Other reserves (EUR)	Profit or loss brought forward (EUR)	Profit or loss for the financial year (EUR)
Balance as at 31.12.2015	871.234,66	234.000,00	1.190.140,00	0,00	3.721.508,19
Movements for the year					
Allocation of prior year's Profit or loss [*]	0,00	0,00	0,00	3.721.508,19	-3.721.508,19
Profit or loss for the year					1.134.837,86
Balance as at 31.12.2016	871.234,66	234.000,00	1.190.140,00	3.721.508,19	1.134.837,86

[*] Shareholders Meeting held on April 06, 2016 decided to allocate the gain of the year 2015 amounting to EUR 3.721.508,19 to the reserve "Profit and loss brought forward".

Note 10 – Provisions for taxation

EUR	December 31, 2016	December 31, 2015
Chamber of Commerce fees	43.767,99	39.543,09
Income tax	466.306,25	1.219.320,00
Net wealth tax	3.210,00	0,00
Other taxes	1.261,76	626,00
Value added tax	3.108,99	2.767,79
	517.654,99	1.262.256,88

Note 11 – Non convertible loans

The Company has issued non-convertible notes for a total outstanding amount of USD 6.000.000.000,00 as at December 31, 2016 (December 31, 2015 – USD 6.000.000.000,00).

- i) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Issue discounts on notes		
Current portion	-607.424,16	-588.119,64
Accrued interest on notes	65.974.264,51	63.877.534,87
	65.366.840,35	63.289.415,23

ii) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Nominal value: USD 1.000.000.000,00 Expiring June 04, 2018 Fixed Interest Rate 6,9990%	948.676.596,15	918.526.683,20
Nominal value: USD 1.000.000.000,00 Expiring June 18, 2019 Fixed Interest Rate 7,1750%	948.676.596,15	918.526.683,20
Nominal value: USD 1.000.000.000,00 Expiring November 15, 2033 Fixed Interest Rate 6,3750%	948.676.596,15	918.526.683,20
Nominal value: USD 1.000.000.000,00 Expiring September 30, 2034 Fixed Interest Rate 6,0000%	948.676.596,15	918.526.683,20
Nominal value: USD 1.000.000.000,00 Expiring July 18, 2036 Fixed Interest Rate 7,2000%	948.676.596,15	918.526.683,20
Nominal value: USD 1.000.000.000,00 Expiring June 04, 2038 Fixed Interest Rate 7,7210%	948.676.596,15	918.526.683,20
Issue discounts on notes Long term portion	-10.369.300,54	-10.627.873,00
	5.681.690.276,36	5.500.532.226,20

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

EUR	December 31, 2016	December 31, 2015
Guarantee fee due to Parent Company	1.517.882,04	1.752.335,31
Payable to Group Companies	62.500,00	0,00
Current portion of long term loans with Parent Company [*]	884.719,05	814.524,64
Current portion of long term loans with Group Companies [*]	119.195,24	109.931,04
Currency swaps with Group Companies	0,00	21.781,93
Accruals on long term loans with Parent Company	89.764,57	87.478,17
Accruals on long term loans with Group Companies	24.088,41	23.571,28
Accruals on derivatives with Parent Company	11.541.795,29	13.048.728,00
Accruals on derivatives with Group Companies	3.082.024,92	3.256.700,61
	17.321.969,52	19.115.050,98

b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Long term loans with Parent Company [*]	23.162.496,96	23.283.295,55
Long term loans with Group Companies [*]	3.131.586,19	3.147.370,35
	26.294.083,15	26.430.665,90

[*] 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:

EUR	December 31, 2016	December 31, 2015
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		
Nominal residual amount	9.222.887,56	9.253.860,64
Related to notes issued as of October 6, 2004 for an initial amount of USD 35.652.500,00 Final payment date: September 29, 2034		
Nominal residual amount	12.734.811,13	12.767.873,89
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		
Nominal residual amount	5.340.298,75	5.333.387,05
	27.297.997,44	27.355.121,58

Note 13 – Income from other investments and loans forming part of the fixed assets

- a) derived from affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Interest on long term loans to Parent Company	181.373.297,31	189.190.343,87
	181.373.297,31	189.190.343,87

Note 14 – Other interest receivable and similar income

- a) derived from affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Interest and commissions on receivables from Group Companies	119.276,39	182.401,67
Income on derivatives with Parent Company	363.379.269,22	411.692.064,37
Income on derivatives with Group Companies	64.896.011,83	74.877.175,11
Income on currency swaps with Group Companies	10.926,73	4.456,65
Novation fees on derivatives with Group Companies	0,00	2.260.000,00
	428.405.484,17	489.016.097,80

- b) other interest and similar financial income

EUR	December 31, 2016	December 31, 2015
Interest on bank deposits	2.418,24	304,50
Gain on exchange rates	952.249,48	3.098.437,22
	954.667,72	3.098.741,72

Note 15 – Interest payable and similar expenses

a) concerning affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Interest on loans with Parent Company	1.145.182,50	1.249.701,14
Interest on loans with Group Companies	157.054,72	162.633,74
Interest due to Group Companies	0,00	121.177,78
Guarantee fee due to Parent Company	1.517.882,56	1.752.335,83
Other fees due to Group Companies	125.000,00	125.000,00
Charges on derivatives with Parent Company	182.829.848,98	171.978.777,51
Charges on derivatives with Group Companies	41.077.343,31	62.429.089,06
Charges on currency swaps with Group Companies	1.119,53	636,86
	226.853.431,60	237.819.351,92

b) other interest and similar expenses

EUR	December 31, 2016	December 31, 2015
Other interest and financial commissions	652,86	799,02
Interest and similar expenses on debentures	379.218.425,52	433.448.164,95
Losses on exchange rates	951.332,22	3.095.945,49
	380.170.410,60	436.544.909,46

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.

EUR	December 31, 2016	December 31, 2015
Cross Currency Interest Swap (CCIRS) contracts with Parent Company	3.022.360.718,53	3.022.360.719,06
Cross Currency Interest Swap (CCIRS) contracts with Group Companies	572.567.921,11	572.567.921,57
Interest Rate Swap (IRS) contracts with Parent Company	2.964.614.362,96	2.870.395.885,00
Interest Rate Swap (IRS) contracts with Group Companies	450.621.383,17	436.300.174,52
Foreign exchange agreements with Group Companies	0,00	959.080,22
	7.010.164.385,77	6.902.583.780,37

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

EUR	December 31, 2016	December 31, 2015
Cross Currency Interest Swap (CCIRS) contracts with Parent Company	715.397.245,42	678.482.570,23
Cross Currency Interest Swap (CCIRS) contracts with Group Companies	208.281.899,88	199.257.177,26
Interest Rate Swap (IRS) contracts with Parent Company	931.692.054,95	991.649.939,19
Interest Rate Swap (IRS) contracts with Group Companies	194.994.933,83	202.829.252,22
Foreign exchange agreements with Group Companies	0,00	-18.510,15
	2.050.366.134,08	2.072.200.428,75

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 2016.

Note 20 – Staff

As of December 31, 2016 the Company has 3 employees on its payroll (December 31, 2015 – 2). The average of employees during the fiscal year has been of 2,08 resources (2015 – 2).

Note 21 – Litigation

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

Note 22 – Auditor's fees

During the fiscal year 2016 a total of EUR 36.753,60 (VAT excluded) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (2015 – EUR 18.833,12). 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, 2016, 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 2016, the profit and loss account 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 2016, 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The Directors' report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 16 March 2017

A handwritten signature in blue ink, appearing to read 'Fabrice Goffin', with a long horizontal stroke extending to the right.

Fabrice Goffin