



Telecom Italia Capital
Société Anonyme
L-2453 Luxembourg

R.C.S. Luxembourg B 77.970

12, rue Eugène Ruppert
Unaudited Semi-Annual Accounts
as at June 30, 2016, which have been authorized by
the Board of Directors held on July 22, 2016

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Directors' report

Telecom Italia Capital (herein defined as well as the "Company" or "TI Capital") ends the first six months of the year 2016 with a profit of EUR 493.609,27 (EUR 2.913.696,14 for the same period 2015) after deducting tax charges for EUR 202.398,00 (EUR 268.576,25 for the first half 2015). First half 2015 result includes non-recurrent profits worth EUR 2,3 million related to the novation of a derivative agreement.

The contribution of the on-going borrowing and lending activity is positive for EUR 0,9 million (EUR 1,1 million for the same period 2015).

The net financial position as of June 30, 2016 is positive for EUR 10,1 million (EUR 10,3 million as of December 31, 2015).

As per June 30, 2016, the aggregate principal amount of the outstanding notes equals to USD 6.000.000.000,00 (USD 7.400.000.000,00 as of June 30, 2015). The proceeds of the aforesaid notes have been utilized to provide funding to Telecom Italia Group companies. All the notes are unconditionally and irrevocably guaranteed by the mother company Telecom Italia S.p.A.

As of June 30, 2016 the fully paid in share capital amounts to EUR 2.336.000,00.

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

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

The financial risks are managed through:

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

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

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

Events subsequent to June 30, 2016 - Evolution of the second semester 2016

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

During the second half of the year 2016 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.

Financials as of June 30, 2016 herein reported have not been audited. They comprise the balance sheet, the profit and loss account, the cash flow statements and the explanatory notes.

For the Board of Directors
The Managing Director
Adriano Trapletti

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Balance Sheet - Assets

| TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT JUNE 30,2016 | | |
|---|--------------------------|-------------------------|
| ASSETS - [EUR] | 30.JUNE.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] 20.012.177,32 | 21.120.559,19 |
| C. Fixed assets | 4.488.657.975,66 | 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] 4.488.657.975,66 | 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 | 998.786.754,71 | 1.090.430.921,23 |
| 1. Stocks | 0,00 | 0,00 |
| 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 | 0,00 | 0,00 |
| 1. Trade debtors | 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 | 85.877.605,89 | 89.024.165,18 |
| b) becoming due and payable after more than one year | 908.764.387,27 | 997.704.774,99 |
| 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 debtors | 0,00 | 0,00 |
| a) becoming due and payable within one year | 20.877,39 | 17.805,55 |
| b) becoming due and payable after more than one year | 0,00 | 0,00 |
| III. Investments | 0,00 | 0,00 |
| 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 | [6] 4.123.884,16 | 3.684.175,51 |
| E. Prepayments | 1.300.673,72 | 1.366.346,06 |
| TOTAL ASSETS | 5.508.757.581,41 | 5.619.363.879,68 |

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

Balance Sheet - Liabilities

| TELECOM ITALIA CAPITAL SOCIETE ANONYME BALANCE SHEET AS AT JUNE 30, 2016 | | | |
|---|------|-------------------------|-------------------------|
| LIABILITIES - [EUR] | | 30.JUNE.2016 | 31.DECEMBER.2015 |
| A. Capital and reserves | | 8.846.492,12 | 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 | | 0,00 | 0,00 |
| 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 | | 493.609,27 | 3.721.508,19 |
| VII. Interim dividends | | 0,00 | 0,00 |
| VIII. Capital investment subsidies | | 0,00 | 0,00 |
| B. Provisions | | 1.465.663,74 | 1.262.256,88 |
| 1. Provisions for pensions and similar obligations | | | |
| 2. Provisions for taxation | [10] | 1.465.663,74 | 1.262.256,88 |
| 3. Other provisions | | 0,00 | 0,00 |
| C. Creditors | | 5.498.445.425,55 | 5.609.748.739,95 |
| 1. Debenture loans | | 0,00 | 0,00 |
| a) Convertible loans | | 0,00 | 0,00 |
| i) becoming due and payable within one year | | 0,00 | 0,00 |
| ii) becoming due and payable after more than one year | | | |
| b) Non convertible loans | [11] | | |
| i) becoming due and payable within one year | | 62.063.760,12 | 63.289.415,23 |
| ii) becoming due and payable after more than one year | | 5.394.297.943,98 | 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 separat | | | |
| 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 | | 355.075,88 | 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 | | 16.281.670,08 | 19.115.050,98 |
| b) becoming due and payable after more than one year | | 25.446.975,49 | 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 | | 5.508.757.581,41 | 5.619.363.879,68 |

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

Telecom Italia Capital
Société Anonyme

Unaudited Semi-Annual Accounts as at June 30, 2016

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Profit and Loss

| TELECOM ITALIA CAPITAL SOCIETE ANONYME PROFIT AND LOSS FOR THE SIX MONTHS PERIOD | | |
|---|----------------------------|-----------------------|
| | 30.JUNE.2016 | 30.JUNE.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 | 60.997,04 | 74.288,53 |
| a) Wages and salaries | 52.717,22 | 63.050,56 |
| b) Social security costs | 8.279,82 | 11.237,97 |
| i) relating to pensions | 1.264,39 | 2.335,85 |
| ii) other social security costs | 7.015,43 | 8.902,12 |
| 7. Value adjustments | 810.586,95 | 1.094.898,79 |
| a) in respect of formation expenses and of tangible and intangible fixed assets | 810.586,95 | 1.094.898,79 |
| b) in respect of current assets | 0,00 | 0,00 |
| 8. Other operating expenses | 166.406,29 | 234.438,39 |
| 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] 89.962.768,00 | 95.333.417,18 |
| a) derived from affiliated undertakings | 89.962.768,00 | 95.333.417,18 |
| b) other income not included under a) | 0,00 | 0,00 |
| 11. Other interest receivable and similar income | [14] 192.557.953,66 | 239.912.390,05 |
| a) derived from affiliated undertakings | 191.993.853,46 | 237.598.877,99 |
| b) other interest and similar income | 564.100,20 | 2.313.512,06 |
| 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 assets | 0,00 | 0,00 |
| 14. Interest payable and similar expenses | [15] 280.786.724,11 | 330.659.909,13 |
| a) concerning affiliated undertakings | 96.891.705,77 | 103.942.331,38 |
| b) other interest and similar expenses | 183.895.018,34 | 226.717.577,75 |
| 15. Tax on profit or loss | 202.398,00 | 268.576,25 |
| 16. Profit or loss after taxation | 493.609,27 | 2.913.696,14 |
| 17. Other taxes not shown under items 1 to 16 | 0,00 | 0,00 |
| 18. Profit or loss for the financial year | 493.609,27 | 2.913.696,14 |

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

Cash Flow Statements

| TELECOM ITALIA CAPITAL SOCIETE ANONYME CASH FLOW STATEMENT AS AT JUNE 30, 2016 | | | |
|---|------|------------------------|------------------------|
| | Note | 30.JUNE.2016 | 30.JUNE.2015 |
| Operating Activities | | | |
| Profit/Loss before tax | | 696.007,27 | 3.182.272,39 |
| Adjustments for | | | |
| Amortization of formation expenses and on tangible and intangible fixed assets | | 810.586,95 | 1.094.898,79 |
| Finance Income | | -282.520.721,66 | -335.245.807,23 |
| Finance Expenses | | 280.070.070,89 | 329.764.656,09 |
| Changes in trade and other receivables | | 65.672,34 | 122.260,59 |
| Changes in trade and other payables | | -1.064.075,69 | -965.975,62 |
| Income Taxes Paid | | 0,00 | -1.605,00 |
| Net cash flows from operating activities | | -1.942.459,90 | -2.049.299,99 |
| Cash flows from Investing activities | | | |
| Investments and re-payments in Financial Receivables | | -29.822,10 | -4.524.535,25 |
| Interest, commissions and other financial income received | | 283.626.459,31 | 328.268.325,65 |
| Net cash flows from investing activities | | 283.596.637,21 | 323.743.790,40 |
| Cash flows from Financing activities | | | |
| Repayments of borrowings | | -443.639,70 | -1.222.120,85 |
| Interest, commissions and other financial expenses paid | | -280.745.583,74 | -322.095.231,95 |
| Net cash flows from financing activities | | -281.189.223,44 | -323.317.352,80 |
| Net Increase / Decrease in Cash and Cash Equivalents | | 464.953,87 | -1.622.862,39 |
| Net foreign exchange differences in C&CE | | -25.245,22 | 81.886,49 |
| 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] | 4.123.884,16 | 1.409.968,55 |

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

TELECOM ITALIA CAPITAL SOCIETE ANONYME
CASH FLOW STATEMENT AS AT JUNE 30, 2016

| | Note | 30.JUNE.2016 | 31.DECEMBER.2015 |
|--|------|------------------------|--------------------------|
| Operating Activities | | | |
| Profit/Loss before tax | | 696.007,27 | 4.324.046,19 |
| Adjustments for | | | |
| Amortization of formation expenses and on tangible and intangible fixed assets | | 810.586,95 | 2.052.804,01 |
| Finance Income | | -282.520.721,66 | -681.305.183,39 |
| Finance Expenses | | 280.070.070,89 | 672.611.925,55 |
| Changes in trade and other receivables | | 65.672,34 | 205.609,91 |
| Changes in trade and other payables | | -1.064.075,69 | -129.599,21 |
| Income Taxes Paid | | 0,00 | -3.210,00 |
| Net cash flows from operating activities | | -1.942.459,90 | -2.243.606,94 |
| Cash flows from Investing activities | | | |
| Investments and re-payments in Financial Receivables | | -29.822,10 | 1.139.775.464,75 |
| Interest, commissions and other financial income received | | 283.626.459,31 | 691.373.446,79 |
| Net cash flows from investing activities | | 283.596.637,21 | 1.831.148.911,54 |
| Cash flows from Financing activities | | | |
| Repayments of borrowings | | -443.639,70 | -1.147.343.880,80 |
| Interest, commissions and other financial expenses paid | | -280.745.583,74 | -680.925.186,95 |
| Net cash flows from financing activities | | -281.189.223,44 | -1.828.269.067,75 |
| Net Increase / Decrease in Cash and Cash Equivalents | | 464.953,87 | 636.236,85 |
| Net foreign exchange differences in C&CE | | -25.245,22 | 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] | 4.123.884,16 | 3.684.175,51 |

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

Notes to the Semi - Annual accounts

as at June 30, 2016, which have been authorized by the Board of Directors held on July 22, 2016

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

As allowed by the amended law of 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 June 30, 2016 the operations in USD into EUR is the following: 1 EUR = 1,1102 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".

Note 3 – Formation expenses

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

| | <i>Total formation expenses</i> <i>EUR</i> |
|---------------------------------|---|
| Balance as at 31.12.2015 | 21.120.559,19 |
| Movements of the period | |
| Depreciation during the period | -810.586,95 |
| Exchange rate impact | -297.794,92 |
| Balance as at 30.06.2016 | 20.012.177,32 |

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

This item is composed by EUR 4.488.657.975,66 (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.

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|--|--------------------------------|--------------------------------|
| | <u>EUR</u> | <u>EUR</u> |
| 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% | 900.738.605,66 | 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 |
| | <u>4.488.657.975,66</u> | <u>4.506.446.053,20</u> |

[*] Differences between June 30, 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

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|---|----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Accruals on long term loans with Parent Company | 17.259.684,22 | 18.917.487,84 |
| Short term loan with T.M.I. Telemedia International Limited | 7.700.000,00 | 7.700.000,00 |
| Accruals on short term loans with Group Companies | 30.545,59 | 538,70 |
| Accruals on derivatives with Parent Company | 50.653.044,90 | 51.788.765,20 |
| Accruals on derivatives with Group Companies | 10.234.286,99 | 10.614.307,20 |
| Currency swaps with Group Companies | 44,19 | 3.066,24 |
| | 85.877.605,89 | 89.024.165,18 |

b) becoming due and payable after more than one year

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|-------------------------------------|-----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Currency swaps with Parent Company | 665.896.057,98 | 737.172.885,01 |
| Currency swaps with Group Companies | 242.868.329,29 | 260.531.889,98 |
| | 908.764.387,27 | 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 4.123.884,16 (EUR 3.684.175,51 as per December 2015).

Note 7 – Subscribed capital

As of June 30, 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 June 30, 2016 and December 31, 2015, 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. 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 June 30, 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:

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

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

| | <i>Share premium (EUR)</i> | <i>Legal Reserve (EUR)</i> | <i>Other reserves (EUR)</i> | <i>Profit or loss brought forward (EUR)</i> | <i>Profit or loss for the financial period (EUR)</i> |
|---|--------------------------------|--------------------------------|---------------------------------|---|--|
| Balance as at 31.12.2015 | 871.234,66 | 234.000,00 | 1.190.140,00 | 0,00 | 3.721.508,19 |
| Movements for the period | | | | | |
| 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 period | 0,00 | 0,00 | 0,00 | 0,00 | 493.609,27 |
| Balance as at 30.06.2016 | 871.234,66 | 234.000,00 | 1.190.140,00 | 3.721.508,19 | 493.609,27 |

[*] 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

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|--------------------------|----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Income tax | 1.421.718,00 | 1.219.320,00 |
| Value added tax | 3.776,65 | 2.767,79 |
| Chamber of Commerce fees | 39.543,09 | 39.543,09 |
| Other taxes | 626,00 | 626,00 |
| | 1.465.663,74 | 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 June 30, 2016 (December 31, 2015 – USD 6.000.000.000,00).

i) becoming due and payable within one year

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|---------------------------|----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Issue discounts on notes | | |
| <i>Current portion</i> | -576.730,08 | -588.119,64 |
| Accrued interest on notes | 62.640.490,20 | 63.877.534,87 |
| | 62.063.760,12 | 63.289.415,23 |

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

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|-------------------------------------|-------------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring June 04, 2018 | | |
| Fixed Interest Rate 6,9990% | 900.738.605,66 | 918.526.683,20 |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring June 18, 2019 | | |
| Fixed Interest Rate 7,1750% | 900.738.605,66 | 918.526.683,20 |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring November 15, 2033 | | |
| Fixed Interest Rate 6,3750% | 900.738.605,66 | 918.526.683,20 |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring September 30, 2034 | | |
| Fixed Interest Rate 6,0000% | 900.738.605,66 | 918.526.683,20 |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring July 18, 2036 | | |
| Fixed Interest Rate 7,2000% | 900.738.605,66 | 918.526.683,20 |
| Nominal value: USD 1.000.000.000,00 | | |
| Expiring June 04, 2038 | | |
| Fixed Interest Rate 7,7210% | 900.738.605,66 | 918.526.683,20 |
| Issue discounts on notes | | |
| <i>Long term portion</i> | -10.133.689,98 | -10.627.873,00 |
| | 5.394.297.943,98 | 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

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|--|----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Guarantee fee due to Parent Company | 716.652,70 | 1.752.335,31 |
| Current portion of long term loans with Parent Company ^[*] | 820.424,56 | 814.524,64 |
| Current portion of long term loans with Group Companies ^[*] | 110.387,88 | 109.931,04 |
| Currency swaps with Group Companies | 5.561,15 | 21.781,93 |
| Accruals on long term loans with Parent Company | 81.979,29 | 87.478,17 |
| Accruals on long term loans with Group Companies | 22.485,75 | 23.571,28 |
| Accruals on derivatives with Parent Company | 11.602.704,97 | 13.048.728,00 |
| Accruals on derivatives with Group Companies | 2.921.473,78 | 3.256.700,61 |
| | 16.281.670,08 | 19.115.050,98 |

b) becoming due and payable after more than one year

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|---|----------------------|--------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Long term loans with Parent Company ^[*] | 22.416.331,85 | 23.283.295,55 |
| Long term loans with Group Companies ^[*] | 3.030.643,64 | 3.147.370,35 |
| | 25.446.975,49 | 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:

| | <i>June 30, 2016</i> | <i>December 31, 2015</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 | | |
| Nominal residual amount | 8.917.630,05 | 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 | 12.308.549,69 | 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 | 5.151.608,19 | 5.333.387,05 |
| | 26.377.787,93 | 27.355.121,58 |

Note 13 – Income from other investments and loans forming part of the fixed assets*a) derived from affiliated undertakings*

| | <i>June 30, 2016</i> | <i>June 30, 2015</i> |
|---|----------------------|----------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest on long term loans to Parent Company | 89.962.768,00 | 95.333.417,18 |
| | 89.962.768,00 | 95.333.417,18 |

Note 14 – Other interest receivable and similar income*a) derived from affiliated undertakings*

| | <i>June 30, 2016</i> | <i>June 30, 2015</i> |
|--|-----------------------|-----------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest and commissions on receivables from Group Companies | 61.365,16 | 103.642,58 |
| Income on derivatives with Parent Company | 160.534.731,24 | 202.042.359,74 |
| Income on derivatives with Group Companies | 31.392.843,70 | 33.191.065,20 |
| Income on currency swaps with Group Companies | 4.913,36 | 1.810,47 |
| Novation fees on derivatives with Group Companies | 0,00 | 2.260.000,00 |
| | 191.993.853,46 | 237.598.877,99 |

b) other interest and similar financial income

| | <i>June 30, 2016</i> | <i>June 30, 2015</i> |
|---------------------------|----------------------|----------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest on Bank deposits | 0,00 | 304,50 |
| Gain on exchange rates | 564.100,20 | 2.313.207,56 |
| | 564.100,20 | 2.313.512,06 |

Note 15 – Interest payable and similar expenses*a) concerning affiliated undertakings*

| | <i>June 30, 2016</i> | <i>June 30, 2015</i> |
|--|----------------------|-----------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Interest on loans with Parent Company | 562.456,52 | 607.552,05 |
| Interest on loans with Group Companies | 76.712,69 | 79.885,46 |
| Guarantee fee due to Parent Company | 716.653,22 | 895.253,04 |
| Other fees due to Group Companies | 62.500,00 | 62.500,00 |
| Charges on derivatives with Parent Company | 75.122.969,85 | 79.414.130,77 |
| Charges on derivatives with Group Companies | 20.349.862,44 | 22.882.805,60 |
| Charges on currency swaps with Group Companies | 551,05 | 204,46 |
| | 96.891.705,77 | 103.942.331,38 |

b) other interest and similar expenses

| | <i>June 30, 2016</i> | <i>June 30, 2015</i> |
|---|-----------------------|-----------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Other financial commissions | 430,75 | 552,16 |
| Interest and similar expenses on debentures | 183.331.732,63 | 224.407.283,15 |
| Losses on exchange rates | 562.854,96 | 2.309.742,44 |
| | 183.895.018,34 | 226.717.577,75 |

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>June 30, 2016</i> | <i>December 31, 2015</i> |
|---|--------------------------------|--------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Cross Currency Interest Swap (CCIRS) contracts with Parent Company | 3.022.360.719,06 | 3.022.360.719,06 |
| Cross Currency Interest Swap (CCIRS) contracts with Group Companies | 572.567.921,57 | 572.567.921,57 |
| Interest Rate Swap (IRS) contracts with Parent Company | 2.814.808.142,68 | 2.870.395.885,00 |
| Interest Rate Swap (IRS) contracts with Group Companies | 427.850.837,69 | 436.300.174,52 |
| Foreign exchange agreements with Group Companies | 1.231.409,82 | 959.080,22 |
| | <u>6.838.819.030,82</u> | <u>6.902.583.780,37</u> |

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

| | <i>June 30, 2016</i> | <i>December 31, 2015</i> |
|---|--------------------------------|--------------------------------|
| | <i>EUR</i> | <i>EUR</i> |
| Cross Currency Interest Swap (CCIRS) contracts with Parent Company | 563.851.482,52 | 678.482.570,23 |
| Cross Currency Interest Swap (CCIRS) contracts with Group Companies | 182.105.010,05 | 199.257.177,26 |
| Interest Rate Swap (IRS) contracts with Parent Company | 1.268.747.583,80 | 991.649.939,19 |
| Interest Rate Swap (IRS) contracts with Group Companies | 265.384.733,80 | 202.829.252,22 |
| Foreign exchange agreements with Group Companies | -5.142,84 | -18.510,15 |
| | <u>2.280.083.667,33</u> | <u>2.072.200.428,75</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 first six months of 2016.

Note 20 – Staff

As of June 30, 2016 the Company has 2 employees on its payroll (December 31, 2015 – 2). The average of employees during the fiscal period has been of 2 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 first six months a total of EUR 19.310,82 (VAT excluded) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (2015 – EUR 6.011,58). No other amount has been paid to the Auditor.

Note 23 – Adjustment on the comparison period

According to the Grand Duchy Law of 18 December 2015 modifying the first book of the Commercial Code and the amended versions of the G.D Law of the 10 August 1915 on commercial companies and G.D. Law of the December 19, 2002 the Company has drawn the Balance Sheet and the Profit and Loss as at June 30, 2016 under the new layout.

The changes implemented did not impact particularly the layout of the Balance Sheet of the Company.

In the following page you can find the details concerning the reclassification made-up for the comparison period (June 30, 2015) of the Profit and Loss account.

TELECOM ITALIA CAPITAL SOCIETE ANONYME
PROFIT AND LOSS FOR THE SIX MONTHS PERIOD

| Old outline | New outline | Values June 2015 Old outline | Values June 2015 New outline | Delta | NOTE |
|--|---|---------------------------------|---------------------------------|---------------------|--|
| 2. Other external charges | --- | 167.510,03 | --- | - 167.510,03 | Value reclassified to 8. Other operating expenses |
| 3. Staff costs | 6. Staff costs | 74.288,53 | 74.288,53 | - | |
| a) Salaries and wages | a) Wages and salaries | 63.050,56 | 63.050,56 | - | |
| b) Social security on salaries and wages | --- | 8.007,30 | --- | - 8.007,30 | Value reclassified to b) Social security costs ii) other social security costs |
| c) Supplementary pension costs | --- | 2.335,85 | --- | - 2.335,85 | Value reclassified to b) Social security costs i) relating to pensions |
| d) Other social costs | --- | 894,82 | --- | - 894,82 | Value reclassified to b) Social security costs ii) other social security costs |
| --- | b) Social security costs | | | | |
| --- | i) relating to pensions | --- | 2.335,85 | 2.335,85 | Value reclassified from c) Supplementary pension costs |
| --- | ii) other social security costs | --- | 8.902,12 | 8.902,12 | Value reclassified from b) Social security on salaries and wages and d) Other social costs |
| 4. Value adjustments | 7. Value adjustments | 1.094.898,79 | 1.094.898,79 | - | |
| a) on formation expenses and on tangible and intangible fixed assets | a) in respect of formation expenses and of tangible and intangible fixed assets | 1.094.898,79 | 1.094.898,79 | - | |
| 5. Other operating charges | 8. Other operating expenses | 66.928,36 | 234.438,39 | 167.510,03 | Value reclassified from 8. Other external charges |
| 8. Interest and other financial charges | 14. Interest payable and similar expenses | 330.659.909,13 | 330.659.909,13 | - | |
| a) concerning affiliated undertakings | a) concerning affiliated undertakings | 103.942.331,38 | 103.942.331,38 | - | |
| b) other interest and similar financial charges | b) other interest and similar expenses | 226.717.577,75 | 226.717.577,75 | - | |
| 11. Income tax | 15. Tax on profit or loss | 268.576,25 | 268.576,25 | - | |
| 13. Profit for the financial year | 18. Profit or loss for the financial year | 2.913.696,14 | 2.913.696,14 | - | |
| 6. Income from financial fixed assets | 10. Income from other investments and loans forming part of the fixed assets | 95.333.417,18 | 95.333.417,18 | - | |
| a) derived from affiliated undertakings | a) derived from affiliated undertakings | 95.333.417,18 | 95.333.417,18 | - | |
| 8. Other interest and other financial income | 11. Other interest receivable and similar income | 239.912.390,05 | 239.912.390,05 | - | |
| a) derived from affiliated undertakings | a) derived from affiliated undertakings | 237.598.877,99 | 237.598.877,99 | - | |
| b) other interest and similar financial income | b) other interest and similar income | 2.313.512,06 | 2.313.512,06 | - | |
| 13. Loss for the financial year | --- | --- | --- | - | |

Declaration of the manager responsible for financial reporting

Pursuant to paragraph 4 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above interim financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Adriano Trapletti
Managing Director