TELECOM ITALIA S P A
Form 6-K/A
January 16, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K/A

REPORT OF FOREIGN PRIVATE ISSUER

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

FOR THE MONTH OF JANUARY 2014

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

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

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

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

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

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

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

YES [ ]   NO [X]

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

This file cancels and replaces the previous submission because of a technical problem.

Half-year

Financial Report

at June 30, 2013

Contents

Useful Information

184

This document has been translated into English solely for the convenience of the readers.

In the event of discrepancy, the Italian language version prevails.

The Telecom Italia Group

The Business Units

DOMESTIC

The Domestic Business Unit operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators. In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

CORE DOMESTIC

- Consumer
- Business
- National Wholesale
- Other (Support Structures)

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle Group

- Telecom Italia Sparkle S.p.A.
-

	Lan Med Nautilus Group
BRAZIL The Brazil Business Unit (Tim Brasil group) offers services using UMTS and GSM technologies. Moreover, with the acquisitions and subsequent integrations into the group of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.	Tim Brasil Serviços e Participações S.A. • Tim Participações S.A. – Intelig Telecomunicações Ltda – Tim Celular S.A.
ARGENTINA The Argentina Business Unit (Sofora - Telecom Argentina group) operates in Argentina and Paraguay. Specifically, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal (with the Personal brand), and in Paraguay it operates in mobile telecommunications with the company Núcleo.	Sofora Telecomunicaciones S.A. (Sofora) • Nortel Inversora S.A. – Telecom Argentina S.A. – Telecom Argentina USA Inc. – Telecom Personal S.A. – Núcleo S.A. (Paraguay)
MEDIA Media operates in the management of analog and digital broadcasting networks, accessory services of television broadcasting platforms and the television broadcasting segment through the MTV Group.	Telecom Italia Media S.p.A. • TI Media Broadcasting S.r.l. (network operator) •

	MTV group
OLIVETTI Olivetti operates in the sector of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. The reference market is focused mainly in Europe, Asia and South America.	Olivetti S.p.A. • Advalso S.p.A. • Olivetti I-Jet S.p.A. • European Affiliates

Board of Directors

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

	Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

Board of Statutory Auditors

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

Key Operating and Financial Data - Telecom Italia Group

Half-year 2013 Highlights

The first half of 2013 continued to be affected by the fragility of the domestic economic environment and by a reduction in economic growth in Latin American countries. Along with the continuing unfavorable economic scenario, in Italy downwards pressure on prices continued, particularly in the Mobile Consumer market. In the second quarter, it was decided to respond firmly to this trend with highly competitive deals, investing a portion of profits to clear the way for defense and net acquisition of customers, also using innovative convergent fixed-mobile deals. In addition to that market context, the results were also significantly affected by the adverse impact of regulatory factors.

Although the overall conditions for the second part of the year continue to appear challenging, the Company expects a gradual easing of competitive pressure, particularly on Mobile prices, and a more stable regulatory framework.

In this context, Telecom Italia is implementing significant actions to increase operating efficiency and safeguard the deleverage objective. All the opportunities offered by the announced project of structural separation of the fixed-line access network will be pursued, and we will continue to assess future opportunities for consolidation in the mobile business.

More specifically, in the first half of 2013:

- Consolidated revenues dropped year-on-year (-2.7% in organic terms) to 13.8 billion euros, while EBITDA fell to 5.2 billion euros, down 10.6% (-6.8% in organic terms).

- In organic terms, operating profit (EBIT) decreased by 13% compared to the first half of 2012. In reported terms, EBIT in the first half of 2013 came to 0.4 billion euros, also as a result of a goodwill impairment loss for Core Domestic totaling 2.2 billion euros.

- Profit (loss) for the period attributable to Owners of the Parent showed a loss of 1.4 billion euros. Excluding the impact of the aforementioned goodwill impairment loss, profit for the period would have been 0.8 billion euros (profit of 1.2 billion euros in the first half of 2012).

- Cash flow in the first half of the year, which is already usually lower than in the second half of the year, was impacted to a greater extent, in the first six months of 2013, by the seasonal trend in bills payable in the last half of the previous year. Dividends and taxes were also paid totaling 0.7 billion euros, a decrease of approximately 0.5 billion euros compared to the same period of the previous year.

- Adjusted Net Financial Debt consequently came to 28.8 billion euros, up 0.5 billion euros compared to the end of 2012 and down 1.5 billion euros compared to June 30, 2012.

Financial Highlights

(millions of euros)		1st Half 2013	1st Half 2012	% Change Reported	% Change Organic
Revenues		13,760	14,793	(7.0)	(2.7)
EBITDA	(1)	5,236	5,859	(10.6)	(6.8)
EBITDA Margin		*38.1%*	*39.6%*	*(1.5) pp*	
Organic EBITDA Margin		*38.9%*	*40.7%*	*(1.8) pp*	
EBIT before goodwill impairment loss		2,540	3,199	(20.6)	
Goodwill impairment loss		*(2,187)*	–	-	
EBIT	(1)	353	3,199	(89.0)	(13.0)
EBIT Margin		*2.6%*	*21.6%*	*(19.0) pp*	
Organic EBIT Margin		*20.1%*	*22.5%*	*(2.4) pp*	

Profit (loss) for the period attributable to owners of the Parent		(1,407)	1,242	
Capital expenditures (CAPEX)		2,193	2,269	(3.3)
		6/30/2013	6/30/2012	12/31/2012
Adjusted net financial debt	(1)	28,813	30,360	28,274
Change on 6/30/2013			(1,547)	539

1)

Details are provided under Alternative Performance Measures .

Consolidated Operating Performance

Revenues

Revenues amounted to 13,760 million euros in the first half of 2013, down 7% from 14,793 million euros in the first half of 2012. The drop of 1,033 million euros was mainly driven by falling revenues for the Domestic Business Unit (-944 million euros) and Brazil Business Unit (-113 million euros, due to the reais/euro exchange rate), whereas the Argentina Business Unit recorded growth (+67 million euros). In terms of organic change, consolidated revenues fell by 2.7% (-375 million euros).

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

- the effect of the change in exchange rates,[1] totaling -634 million euros, mainly relating to the Brazil Business Unit (-352 million euros) and the Argentina Business Unit (-280 million euros);

- the effect of the change in the scope of consolidation (-33 million euros) resulting from the sale of the company Matrix (Other Operations) on October 31, 2012 and of La7 S.r.l. (Media) on April 30, 2013.

The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Half 2013		1st Half 2012		Change		
		% of total		% of total	amount	%	% organic

Domestic	8,104	58.9	9,048	61.2	(944)	(10.4)	(10.5)
Core Domestic	*7,687*	*55.9*	*8,570*	*57.9*	*(883)*	*(10.3)*	*(10.4)*
International Wholesale	*596*	*4.3*	*709*	*4.8*	*(113)*	*(15.9)*	*(15.7)*
Brazil	3,620	26.3	3,733	25.2	(113)	(3.0)	7.1
Argentina	1,890	13.7	1,823	12.3	67	3.7	22.5
Media, Olivetti and Other Operations	212	1.5	290	2.0	(78)		
Adjustments and Eliminations	*(66)*	*(0.4)*	*(101)*	*(0.7)*	*35*		
Consolidated Total	13,760	100.0	14,793	100.0	(1,033)	(7.0)	(2.7)

The breakdown of revenues by operating segment is the following:

The Domestic Business Unit (divided into Core Domestic and International Wholesale) recorded a decline of 951 million euros (-10.5%) in organic revenues for the first half of 2013, compared to the corresponding period of 2012.

This trend is partly attributable to regulatory issues, such as the entry into force of new mobile termination rates (MTR), which are 72% lower than those applicable in the same period of 2012 (1.5 euro cents compared to 5.3 euro cents in the same period of 2012), with a negative impact on the income statement of -247 million euros compared to the first half of 2012, as well as the recent AGCom decisions regarding rates for access to the copper network (-58 million euros compared to the first half of 2012). In the final figures for the first half of 2013, Telecom Italia applied with retroactive effect as of January 1, 2013 the values set forth in the two tables in the measure on rates for 2013 relating to wholesale access fees for the copper network (Local Loop Unbundling, naked bitstream, shared bitstream), recently notified by AGCom to the European Commission, which has a term of thirty days to make any comments. Moreover, Telecom Italia believes that those decisions on 2013 rates have aspects that conflict with the European regulatory framework, and has reserved the right to provide the European Commission with its comments. If these decisions are confirmed, Telecom Italia will lodge an appeal with the competent legal forums.

The performance of the domestic market was also affected by the deterioration in the macroeconomic environment and a much more competitive scenario, especially in Mobile services.

In detail:

•

Organic revenues from services amounted to 7,784 million euros, down 10.6% compared to the corresponding period of 2012. Specifically, revenues from services in the Mobile business came to 2,604 million euros (3,179 million euros in the first half of 2012) a decrease of 575 million euros (-18.1% compared to the corresponding period of 2012). Revenues from services in the Fixed-line business came to 5,835 million euros (6,329 million euros in the first half of 2012), and were down 494 million euros (-7.8% compared to the corresponding period of 2012);

•

Products recorded revenues of 320 million euros, in decline compared to the same period of 2012 (-23 million euros). This negative trend is mainly attributable to Fixed-line products (corded phones, PCs, routers, etc.), as a result of a contraction in the market, as well as a more selective commercial strategy to defend the profit base.

As for the Brazil Business Unit, organic revenues grew 7.1% in the first half of 2013 compared to the corresponding period of the prior year. Revenues from services continued their positive trend (+1.9% compared to the first half of 2012), driven by growth in the customer base (reaching approximately 72 million lines at June 30, 2013, up 2.6% compared to December 31, 2012). Handset revenues also showed a positive trend (+47.9% compared to the first half of 2012).

For the Argentina Business Unit, organic revenues increased 22.5% compared to the first half of 2012 (+347 million euros). In particular, mobile business revenues recorded growth of 25.0%, while the fixed-line segment, which is coming out of a decade of partially blocked regulated rates, grew by 16.0% year-on-year.

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

EBITDA

EBITDA totaled 5,236 million euros, down 623 million euros compared to the first half of 2012 (-10.6%); the EBITDA margin was 38.1% (39.6% in the first half of 2012). In organic terms, EBITDA fell by 391 million euros (-6.8%) year-on-year, while the EBITDA margin was down 1.8 percentage points, from 40.7% in the first half of 2012 to 38.9% in the first half of 2013. The drop in the margin was due to a higher percentage of revenues coming from South America, where margins are lower than those of the Domestic Business.

Details of EBITDA and EBITDA margins by operating segment are as follows:

(millions of euros)	1st Half 2013		1st Half 2012		Change		
		% of total		% of total	amount	%	% organic
Domestic	3,824	73.0	4,406	75.2	(582)	(13.2)	(10.9)
EBITDA Margin	*47.2*		*48.7*			*(1.5) pp*	*(0.1) pp*
Brazil	919	17.6	987	16.8	(68)	(6.9)	2.8
EBITDA Margin	*25.4*		*26.5*			*(1.1) pp*	*(1.1) pp*
Argentina	537	10.3	550	9.4	(13)	(2.4)	15.5
EBITDA Margin	*28.4*		*30.2*			*(1.8) pp*	*(1.8) pp*
Media, Olivetti and Other Operations	(40)	(0.8)	(81)	(1.3)	41		
Adjustments and Eliminations	*(4)*	*(0.1)*	*(3)*	*(0.1)*	*(1)*		
Consolidated Total	5,236	100.0	5,859	100.0	(623)	(10.6)	(6.8)
EBITDA Margin	*38.1*		*39.6*			*(1.5) pp*	*(1.8) pp*

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

•

Acquisition of goods and services (6,154 million euros; 6,500 million euros in the first half of 2012). The reduction of 346 million euros was mainly attributable to the Domestic Business Unit, which saw a decrease of 367 million euros compared to the first half of 2012, largely due to lower amounts payable to other operators. This was offset by the growth in purchases by the Brazil Business Unit (+19 million euros, net of a negative exchange rate effect of 213 million euros) and the Argentina Business Unit (+34 million euros, net of a negative exchange rate effect of 129 million euros).

•

Employee benefits expenses (1,931 million euros; 2,006 million euros in the first half of 2012).

These decreased by 75 million euros. The change was influenced by:

–

an 88 million euro decrease in employee benefits expenses in Italy, primarily due to lower

ordinary personnel costs and charges, which fell by 71 million euros, and the exit of Matrix

and La7 S.r.l. from the Group s scope of consolidation, for 21 million euros.

This decrease was offset by higher restructuring expenses for a total of 5 million euros. These expenses included 21 million euros for the first half of 2013, recognized following the framework agreement signed by the Parent with the Trade Unions on March 27, 2013 (including 18 million euros from the Parent, 2 million euros from TI Information Technology and 1 million euros from TI Sparkle) and the charge of 16 million euros, posted in the first half of 2012, resulting from the agreements signed with the Trade Unions of Olivetti I-Jet and its subsidiary Olivetti Engineering S.A., for the purpose of managing redundant staff of the company placed in liquidation;

–

a 13 million euros increase in employee benefits expenses in our foreign businesses,

connected with the growth in the average workforce, which rose to 839 employees across the

Brazil and Argentina Business Units.

•

Other operating expenses (941 million euros; 897 million euros in the first half of 2012).

These increased by 44 million euros compared to the first half of 2012.

This increase was primarily attributable to the Domestic Business Unit (+64 million euros,

including 84 million euros relating to the estimate of the charges connected with the fine

imposed by the Italian Antitrust Authority (AGCM) challenged by Telecom Italia relating to the A428 proceedings) and to the Argentina Business Unit (+25 million euros, including a negative exchange rate effect of 30 million euros), and only partly offset by the reduction in other operating expenses of the Brazil Business Unit (-32 million euros, including a negative exchange rate effect of 35 million euros).

In detail:

–

Write-downs and expenses in connection with credit management (236 million euros; 270 million euros in the first half of 2012) consisted of 154 million euros (174 million euros in the first half of 2012) for the Domestic Business Unit, 53 million euros (49 million euros in the first half of 2012) for the Brazil Business Unit, and 24 million euros (26 million euros in the first half of 2012) for the Argentina Business Unit;

–

Provision charges (60 million euros; 56 million euros in the first half of 2012) consisted of 39 million euros (35 million euros in the first half of 2012) for the Brazil Business Unit, 12 million euros (6 million euros in the first half of 2012) for the Argentina Business Unit, and 8 million euros (13 million euros in the first half of 2012) for the Domestic Business Unit;

–

Telecommunications operating fees and charges (292 million euros; 337 million euros in the first half of 2012) consisted of 226 million euros (272 million euros in the first half of 2012) for the Brazil Business Unit, 36 million euros (35 million euros in the first half of 2012) for the Argentina Business Unit, and 30 million euros (30 million euros in the first half of 2012) for the Domestic Business Unit;

–

Sundry expenses, amounting to 108 million euros (20 million euros in the first half of 2012), mainly referred to the Domestic Business Unit and included 84 million euros relating to the estimate of the charges for the aforementioned fine imposed by the Italian Antitrust Authority (AGCM), on conclusion of the A428 proceedings. Telecom Italia has lodged an appeal against the fine before the Administrative Court (TAR) for Lazio.

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Half 2013	1st Half 2012	Change
Amortization of intangible assets with a finite useful life	1,124	1,076	48
Depreciation of property, plant and equipment owned and leased	1,465	1,600	(135)
Total	2,589	2,676	(87)

The reduction in overall depreciation and amortization was mainly attributable to the Domestic Business Unit (-30 million euros), as a result of the decrease in depreciation of property, plant and equipment, which was offset by the increase in amortization of intangible assets, primarily due to the entry into force from January 1, 2013 of the user rights on the LTE frequencies (33 million euros). The reduction was also attributable to the Brazil (-28 million euros) and Argentina (-9 million euros) Business Units, which, however, included negative exchange rate effects of 50 million euros and 45 million euros. Net of this exchange rate effect, depreciation and amortization would have increased (+22 million euros for the Brazil Business Unit and +37 million euros for the Argentina Business Unit).

Gains (losses) on disposals of non-current assets

This item shows a loss of 81 million euros, mainly including the realized loss, which includes incidental costs of 105 million euros from the sale of La7 S.r.l.. On March 6, 2013, Telecom Italia Media and Cairo Communication signed an agreement for the sale of 100% of La7 S.r.l. The sale was completed on April 30, 2013, once authorization for the transaction was received, as required by law.

The overall impact of the sale, considering the performance of La7 S.r.l. up until the disposal date of the asset, will be approximately -130 million euros for 2013, inclusive of non-controlling interests. The final calculations of the exact amount of the specific equity and the resulting total charges to the income statement of the Telecom Italia Group are still under way, and are expected to be concluded by the end of 2013.

This charge was offset by net capital gains on non-current assets totaling 24 million euros, of which 18 million euros relating to the sale of a property by the Brazilian company Telecom Italia Latam Participações and Gestão Administrativa Ltda.

In the first half of 2012 the item recorded a positive 16 million euros.

Impairment reversals (losses) on non-current assets

In the first half of 2013, these amounted to 2,213 million euros, and mainly referred to the impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit.

Specifically, in the first half of 2013, the Group, as in previous years, repeated the impairment test on goodwill. The results of this testing led to an impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic Cash Generating Unit. This valuation, in compliance with the Group s specific procedures, considered the deterioration of the macroeconomic context, both in general terms, referring to the trend in the Italian economic outlook, and in specific terms, in relation to the management s expectations of the forecast impact, on the entire year 2013 and coming years, of the recent AGCom decisions on wholesale copper network access rates, as well as the commercial performance of the Domestic Business Unit Domestic in the first half of 2013. The valuation also considered analyst forecasts of the expected performance of the Business Unit, as well as the performance of financial indicators and interest rates.

Further details are provided in the Note Goodwill in the half-year condensed consolidated financial statements at June 30, 2013 of the Telecom Italia Group.

This item also includes impairment losses on non-current assets of 26 million euros for the Argentina Business Unit, relating to tangible assets and connected IT systems on several business projects and IT platforms which the company decided to abandon.

In the first half of 2012 the item amounted to zero.

EBIT

EBIT amounted to 353 million euros (3,199 million euros in the first half of 2012) and was impacted by the above-mentioned goodwill impairment loss of 2,187 million euros on the Domestic business.

Organic EBIT totaled 2,763 million euros, down 412 million euros (-13%) compared to the first half of 2012; the organic EBIT margin was 20.1% (22.5% in the first half of 2012).

Finance income (expenses)

Finance income (expenses) recorded net expenses of 949 million euros (net expenses of 917 million euros in the first half of 2012), an increase of 32 million euros year-on-year.

The increase in expenses was linked to the trend in the valuations of several hedging derivatives, attributable to market fluctuations linked to currency translation (unrealized accounting changes which do not result in any actual monetary settlement) which were offset by the positive effect, of approximately 30 million euros, resulting from the adoption of IFRS 13 starting from the first half of 2013. As this standard requires the reflection of the risk of default by Telecom Italia and its bank counterparts, its introduction generated a positive effect on the Group, as the debt positions in the derivatives portfolio, that are higher than the credit positions, are reduced in order to reflect this risk.

Starting from January 1, 2013, finance expenses incurred through the acquisition, by the Domestic Business Unit, of user licenses to LTE mobile frequencies were no longer capitalized as the assets to which they refer entered into operation during the period.

Income tax expense

The item totaled 633 million euros, down 189 million euros on the first half of 2012, largely due to the smaller taxable base of the Parent Telecom Italia**.**

Profit (loss) for the period

Profit (loss) for the period breaks down as follows:

(millions of euros)	1st Half 2013	1st Half 2012
Profit (loss) for the period	(1,224)	1,456
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(1,410)	1,242
Profit (loss) from Discontinued operations/non-current assets held for sale	3	–
Profit (loss) for the period attributable to owners of the Parent	(1,407)	1,242
Non-controlling interests:		
Profit (loss) from continuing operations	183	214
Profit (loss) from discontinued operations/non-current assets held for sale	–	–
Profit (loss) attributable to non-controlling interests	183	214

Key Operating and Financial Data
The Business Units of the Telecom Italia Group

Domestic

(millions of euros)	1st Half 2013	1st Half 2012	Change amount	Change %	% organic
Revenues	8,104	9,048	(944)	(10.4)	(10.5)
EBITDA	3,824	4,406	(582)	(13.2)	(10.9)
EBITDA Margin	*47.2*	*48.7*		*(1.5) pp*	*(0.1) pp*
EBIT	(147)	2,605	(2,752)		(17.0)
EBIT Margin	*(1.8)*	*28.8*		*(30.6)pp*	*(2.1) pp*
Headcount at period-end (number)	52,997	(*) 53,224	(227)	(0.4)	

(*) Headcount at December 31, 2012.

Fixed

	6/30/2013	12/31/2012	6/30/2012
Physical accesses at period-end (thousands) (1)	20,788	21,153	21,382
of which Retail physical accesses at period-end (thousands)	*13,555*	*13,978*	*14,277*
Domestic BU broadband accesses at period-end (thousands) (2)	8,794	8,967	9,022
of which Retail broadband accesses at period-end (thousands)	*6,933*	*7,020*	*7,037*
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection)	114.7	114.5	112.5
access and carrier network in optical fiber (millions of km - fiber)	6.1	5.7	4.8
Total traffic:			
Minutes of traffic on fixed-line network (billions)	47.3	101.8	53.4
Domestic traffic	40.0	85.9	45.5
International traffic	7.3	15.9	7.9
DownStream and UpStream traffic volumes (PBytes)	1,238	2,202	1,071

(1)

Excludes full-infrastructured OLOs and WIMAX.

(2)

Excludes LLU and NAKED, satellite and full-infrastructured OLOs, and WIMAX.

Mobile [1]

	6/30/2013	12/31/2012	6/30/2012
Number of lines at period-end (thousands)	31,706	32,159	32,225
Change in lines (%)	(1.4)	(0.2)	0.0
Churn rate (%) [2]	14.4	26.6	12.9
Total average outgoing traffic per month (millions of minutes)	3,544	3,664	3,076
Total average outgoing and incoming traffic per month (millions of minutes)	4,948	4,921	4,935
Mobile browsing volumes (PBytes) [3]	48.3	93.1	45.5
Average monthly revenues per line (in euros) [4]	13.2	15.5	16.0

(1)

Following checks on systems that manage our Mobile Customer base, the need to update technical configuration and clarify our corporate regulations on rechargeable SIM cards extension (beyond the initial timeline following first activation - 13 or 24 months according to the offering) was felt.

Therefore, new Guidelines were drafted listing after-sale marketing cases where the life of rechargeable SIM cards can be extended. Monitoring on management systems was concurrently started to eliminate cases of SIM card extension that are no longer within the scope of the above Guidelines.

To manage and rationalize extensions, a decision was taken to set up a working group with the following goals: a) update and finally validate Guidelines and corporate procedures for the listing of rechargeable SIM card extensions following after-sale deals; b) define exactly those SIM cards that may be extended except for a lack of compliance with the above Guideline; c) deactivate those SIM cards which result to be active only based on extension cases which are no longer part of the updated set of rules.

(2)

The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.

(3)

National traffic excluding roaming.

(4)

The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

The financial and operating highlights of the Domestic Business Unit are reported according to two Cash Generating Units (CGU):

•

Core Domestic: includes all telecommunications activities inherent to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:

–

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

–

Business: expanded as of the beginning of 2013 to include Top customers, the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets;

–

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

–

Other (Support Structures): includes:

–

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

–

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

•

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

Main financial data

Key results for the first half of 2013 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to the first half of 2012.

Core Domestic

(millions of euros)	1st Half 2013	1st Half 2012	Change		
			amount	%	% organic
Revenues	7,687	8,570	(883)	(10.3)	(10.4)
Consumer	*4,012*	*4,432*	*(420)*	*(9.5)*	*(9.5)*
Business (1)	*2,627*	*3,013*	*(386)*	*(12.8)*	*(12.8)*
National Wholesale	*964*	*1,035*	*(71)*	*(6.9)*	*(7.7)*
Other	*84*	*90*	*(6)*	*(6.7)*	*(6.7)*
EBITDA	3,731	4,309	(578)	(13.4)	(11.0)
EBITDA Margin	*48.5*	*50.3*		*(1.8) pp*	*(0.3) pp*
EBIT	(193)	2,556	(2,749)		(17.3)
EBIT Margin	*(2.5)*	*29.8*		*(32.3) pp*	*(2.3) pp*
Headcount at period-end (number)	52,048	(*) 52,289	(241)	(0.5)	

(*)

Headcount at December 31, 2012.

(1)

Includes Top customers as of January 1, 2013. Figures for the periods under comparison have been restated accordingly.

International Wholesale

(millions of euros)	1st Half 2013	1st Half 2012	Change		
			amount	%	% organic
Revenues	596	709	(113)	(15.9)	(15.7)
of which third party	*425*	*500*	*(75)*	*(15.0)*	*(14.7)*
EBITDA	96	103	(7)	(6.8)	(4.9)
EBITDA Margin	*16.1*	*14.5*		*1.6 pp*	*1.9 pp*
EBIT	45	50	(5)	(10.0)	(8.0)

EBIT Margin	*7.6*	*7.1*	*0.5 pp*	*0.6 pp*
Headcount at period-end (number)	949	(*) 935	14	1.5

(*)

Headcount at December 31, 2012.

Revenues

In a negative economic scenario worse than expectations, which forecasted a recovery during the year and a market environment of stiff competition with accelerating price reductions (particularly in the Mobile business and traditional services), the decline in revenues was also significantly influenced by several additional regulatory changes.

Specifically, revenues were affected by the entry into force as of January 1, 2013 of new mobile termination rates (MTR), which are a further 40% lower than the rates applicable in the second half of 2012 and 72% lower than those applicable in the first half of 2012 (1.5 euro cents per minute versus 5.3 euro cents in the first half of 2012, and 2.5 euro cents in the second half of 2012). Revenues were also affected by recent decisions of the AGCom regarding copper network access rates. In the final figures of the first half of 2013, Telecom Italia applied with retroactive effect as of January 1, 2013 the values contained in the two draft measures on rates for 2013 relating to wholesale access fees for the copper network (Local Loop Unbundling, naked bitstream, shared bitstream), recently notified by

AGCom to the European Commission, which has a term of thirty days to make any comments. Moreover, Telecom Italia believes that those decisions on 2013 rates have aspects that conflict with the European regulatory framework, and has thus reserved the right to provide the European Commission with its comments. If these decisions are confirmed, Telecom Italia will lodge an appeal with the competent legal forums.

The performance of revenues was also impacted by the introduction of a price cap on roaming traffic at European level in July 2012.

In this scenario, revenues in the first half of 2013 fell by 10.5% in organic terms year-on-year, showing a slightly downward trend with respect to the first quarter of 2013, (when the figure declined by 10.1% year-on-year). Excluding the impact of the reduction in the new mobile termination rates (MTR), of 247 million euros, and the aforementioned change in rates for wholesale access to the copper network, amounting to 58 million euros, the performance in the first half 2013 would have been -7.1% on the same period of the previous year, with a trend more or less in line with the first part of 2013.

Falling revenues were primarily attributable to the decline in revenues from traditional services, which were only marginally offset by the growth in innovative services, especially Fixed-line Broadband, ICT and Mobile Internet in the Consumer segment.

In detail:

•

Consumer: revenues for the Consumer segment amounted to 4,012 million euros, decreasing 420 million euros compared to the first half of 2012 (-9.5%). This performance continued the decline compared to previous periods

(-8.9% in the first quarter of 2013), specifically attributable to the sharp erosion of revenues in the Mobile business (-16.4% compared to -14.7% in the first quarter of 2013), due to strong competition, the resulting loss of Customer Base (approximately -5% compared to June 30, 2012 and -3% compared to December 31, 2012) and the negative impact of the reduction in termination rates (-216 million euros on Mobile business in the first half). The fall in revenues was entirely attributable to lower revenues from services (-383 million euros or -17.5%), especially revenues from traditional Mobile Voice services (-350 million euros, partly affected by the aforementioned introduction of the new termination rates MTR, amounting to -186 million euros on the Consumer segment), Fixed-line Voice services (-91 million euros) and Messaging (-44 million euros), which were only partially offset by growth in Mobile Internet revenues (+22 million euros) and Fixed-line Broadband revenues (+18 million euros).

- Business: revenues for the Business segment in the first half of 2013 totaled 2,627 million euros, representing a fall of 386 million euros (-12.8%) compared to the corresponding period of 2012. The decline was largely due to revenues from services (-367 million euros), which fell by -202 million euros in the Mobile segment (-22.5%) and by -182 million euros (-9.1%) in the Fixed-line segment. Lower Mobile revenues were partly due to the drop in revenues from voice traffic, affected by the introduction of new mobile termination rates (-61 million euros on the Business segment), but also by a reduction in ARPU and, to a lesser extent, by the erosion of the human customer base (-2% versus June 30, 2012) in the SOHO and SME segments in particular. The Fixed-line business continued to feel the effect of the cooling of demand, due to the economic recession and the contraction in prices on the more traditional voice and data services.

- National Wholesale: revenues for the Wholesale segment in the first half of 2013 totaled 964 million euros, down 71 million euros (-6.9%) compared to the same period of 2012, entirely attributable to the above-mentioned regulatory price reductions on LLU, Bitstream, Wholesale Line Rental access and termination.

International Wholesale Revenues

International Wholesale revenues in the first half of 2013 totaled 596 million euros, down 113 million euros (-15.9%) year-on-year. The decline involved Voice services in particular (-90 million euros; -18%), following the annual review of bilateral accords and transit arrangements, which resulted in the decision to focus on renewing agreements offering higher margins. Revenues from IP/Data services were down (-10 million euros, -7%) mainly in the capital market segment. Despite the overall increase in total bandwidth sold, the market suffered from an increasingly competitive scenario and the resulting fall in prices. Also down, particularly in the Domestic component, was the business MNC s segment (-11 million euros, -27%). Against these reductions, the greater focus on higher margin international traffic and the continuous cost-cutting attention and actions, generated an EBITDA in the half year of

96 million euros, with an increase in profitability of approximately 2 percentage points compared to the same period of 2012, though slightly down in actual amount.

EBITDA

EBITDA of the Domestic Business Unit was 3,824 million euros in the first half of 2013, down 582 million euros compared to the first half of 2012 (-13.2%). The EBITDA margin stood at 47.2%, down slightly by -1.5 percentage points year-on-year. The result reflects the contraction in revenues from services (-921 million euros compared to the corresponding period of 2012) and the impact of the Antitrust penalty relating to the A428 proceedings (84 million euros), which were only partly offset by the lower revenues due to other TLC operators (mainly attributable to lower termination rates) and by efficiencies achieved through the selective control and containment of operating expenses.

Organic EBITDA in the first half of 2013 amounted to 3,943 million euros (-480 million euros or -10.9% compared with the first half of 2012), with an organic EBITDA margin of 48.7%, substantially in line with the same period of the previous year (-0.1 percentage points). Without the reduction in fees for wholesale access to the network, EBITDA would have been down 9.6%.

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

(millions of euros)	1st Half 2013	1st Half 2012	Change
Acquisition of goods and services	2,869	3,236	(367)
Employee benefits expenses	1,429	1,472	(43)
Other operating expenses	365	301	64

In particular:

- acquisition of goods and services fell by 367 million euros (-11.3%) compared to the same period of 2012. This reduction was mainly due to a decline in revenues due to other TLC operators, owing principally to the reduction in Mobile termination rates, but also to efficiency measures and containment of fixed costs;

- employee benefits expenses fell by 43 million euros, from 1,472 million euros in the first half of 2012 to 1,429 million euros in the first half of 2013. The drop was mainly due to lower ordinary personnel costs, which were offset by expenses for mobility under Law 223/91, totaling 21 million euros, recognized after a framework agreement was reached by the Parent Telecom Italia with Trade Unions on March 27, 2013;

- other operating expenses increased by 64 million euros compared to the same period of 2012. These included 84 million euros relating to the estimate of the charges for the fine imposed by the Italian Antitrust Authority (AGCM) on conclusion of the A428 proceedings; Telecom Italia has lodged an appeal against the fine before the Administrative Court (TAR) for Lazio. However, this effect was partly offset by the reduction in expenses in connection with credit management (-20 million euros compared to the first half of 2012), mainly attributable to the reduction in credits sold.

Details of other operating expenses are shown in the table below:

(millions of euros)	1st Half 2013	1st Half 2012	Change
	154	174	(20)

Write-downs and expenses in connection with credit management			
Provision charges	8	13	(5)
Telecommunications operating fees and charges	30	30	-
Indirect duties and taxes	54	51	3
Sundry expenses	119	33	86
Total	365	301	64

EBIT

EBIT came to -147 million euros, down 2,752 million euros compared to the first half of 2012 (2,605 million euros). This figure was driven down specifically by the goodwill impairment loss on the Domestic Cash Generating Unit of 2,187 million euros, recorded based on the results of the impairment testing.

In organic terms, calculated excluding in particular the aforementioned goodwill impairment loss, EBIT came to 2,159 million euros, down 443 million euros (-17%) compared to the first half of 2012 (2,602 million euros); with an organic EBIT margin of 26.6% in the first half of 2013, down from the 28.7% recorded for the first half of 2012.

Brazil

	(millions of euros)		(millions of Brazilian reais)			
	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	Change	
					amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	3,620	3,733	9,655	9,016	639	7.1
EBITDA	919	987	2,452	2,385	67	2.8
EBITDA Margin	*25.4*	*26.5*	*25.4*	*26.5*		*(1.1) pp*
EBIT	420	460	1,121	1,110	11	1.0
EBIT Margin	*11.6*	*12.3*	*11.6*	*12.3*		*(0.7) pp*
Headcount at period-end (number)			11,494	(*) 11,622	(128)	(1.1)

(*)

Headcount at December 31, 2012.

	1st Half 2013	1st Half 2012
Number of lines at period-end (thousands)	72,181	(1)70,362
MOU (minutes/month)(2)	146.0	126.9
ARPU (reais)	18.3	18.7

(1) Number at December 31, 2012.

(2) Net of visitors.

Main financial data

Revenues

Revenues for the first half of 2013 amounted to 9,655 million reais, up 639 million reais on the same period of 2012 (+7.1%). Service revenues totaled 8,152 million reais, up from 8,000 million reais for the same period of 2012 (+1.9%). Revenues from product sales were up from 1,016 million reais in the first half of 2012 to 1,503 million reais in the first half of 2013 (+47.9%), reflecting the Company s strategy of market penetration with high-end handsets (smartphones/web phones) and tablets as an important lever for the expansion of revenues from data services.

Mobile Average Revenue Per User (ARPU) was 18.3 reais in the first half of 2013 compared with 18.7 reais in the same period of 2012 (-2.1%). The performance of ARPU and revenues from services not only reflected competitive pressures that have led to a decline in revenue per user in the voice business, but also the lower mobile operator network interconnection rate.

The total number of lines at June 30, 2013 was 72.2 million, 2.6% higher than at December 31, 2012, representing a 27.2% market share in terms of lines.

EBITDA

EBITDA in the first half of 2013 amounted to 2,452 million reais, an improvement of 67 million reais (+2.8%) year-on-year. Growth in EBITDA was driven by higher revenues, mainly from value-added

services, which were partially offset by higher termination costs due to increased traffic volumes and by industrial costs and employee benefits expenses. The EBITDA margin came to 25.4%, 1.1 percentage points lower than in the first half of 2012.

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

	(millions of euros)		(millions of Brazilian reais)		
	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	2,274	2,255	6,066	5,447	619
Employee benefits expenses	179	177	479	427	52
Other operating expenses	341	373	908	900	8
Change in inventories	(42)	(17)	(113)	(41)	(72)

•

acquisition of goods and services: totaled 6,066 million reais (5,447 million reais in the first half of 2012). The 11.4% increase year-on-year (+619 million reais) breaks down as follows:

+471	million reais for purchases referring primarily to product cost;
+ 54	million reais for rent and lease costs;
+ 94	million reais for external service costs;

•

employee benefits expenses, amounting to 479 million reais, were up 52 million reais compared with the first half of 2012 (+12.2%). The average workforce grew from 9,795 employees in the first half of 2012 to 10,506 employees in the first half of 2013. The percentage of employee benefits expenses to revenues was 5%, increasing 0.3 percentage points compared to the first half of 2012;

•

other operating expenses amounted to 908 million reais, an increase of 0.9% (900 million reais in the first half of 2012). The expenses break down as follows:

(millions of Brazilian reais)	1st Half 2013	1st Half 2012	Change

Write-downs and expenses in connection with credit management	141	118	23
Provision charges	103	85	18
Telecommunications operating fees and charges	602	656	(54)
Indirect duties and taxes	28	17	11
Sundry expenses	34	24	10
Total	908	900	8

EBIT

EBIT was 1,121 million reais, increasing 11 million reais compared to the first half of 2012. This increase was due to higher EBITDA, partially offset by higher depreciation and amortization charges of 59 million reais (1,330 million reais in the first half of 2013, compared to 1,271 million reais in the first half of 2012).

Argentina

	(millions of euros)		(millions of Argentine pesos)			
	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	Change	
					amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	1,890	1,823	12,712	10,379	2,333	22.5
EBITDA	537	550	3,615	3,131	484	15.5
EBITDA Margin	*28.4*	*30.2*	*28.4*	*30.2*		*(1.8) pp*
EBIT	226	255	1,524	1,452	72	5.0
EBIT Margin	*12.0*	*14.0*	*12.0*	*14.0*		*(2.0) pp*
Headcount at period-end (number)(*)			16,713	(**) 16,803	(90)	(0.5)

(*) Includes employees with temp work contracts: 1 at June 30, 2013, and 3 at December 31, 2012.

(**) Headcount at December 31, 2012.

	6/30/2013	12/31/2012	Change amount	%
Fixed-line				
Lines at period-end (thousands)	4,114	4,128	(14)	(0.3)
ARBU (Average Revenue Billed per User) (Argentine pesos)	51.2	47.2 (1)	4.0	8.5
Mobile				
Lines at period-end (thousands)	21,688	21,276	412	1.9
Telecom Personal lines (thousands)	19,307	18,975	332	1.7
% postpaid lines (2)	*33%*	*33%*	-	

MOU Telecom Personal (minutes/month)	95	96 [1]	(1)	(1.0)
ARPU Telecom Personal (Argentine pesos)	63.8	54.6 [1]	9.2	16.8
Núcleo mobile lines (thousands) [3]	2,381	2,301	80	3.5
% postpaid lines [2]	*20%*	*19%*	*+1pp*	
Broadband				
Broadband accesses at period-end (thousands)	1,634	1,629	5	0.3
ARPU (Argentine pesos)	119.3	96.1 [1]	23.2	24.1

(1) Figures for the first half of 2012.

(2)

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

(3)

Includes WiMAX lines.

Revenues

Revenues for the first half of 2013 amounted to 12,712 million pesos, up by 2,333 million pesos (+22.5%) compared to the first half of 2012 (10,379 million pesos), mainly due to the growth in the mobile customer base compared to the first half of 2012, and the increase in Average Revenue Per User (ARPU). The main source of revenues was mobile telephony, which accounted for about 74% of the consolidated revenues of the Business Unit, an increase of 25% year-on-year.

Fixed-line telephony service**:** the number of fixed lines at June 30, 2013 decreased slightly compared to the end of 2012. Even though regulated fixed-line services in Argentina continued to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, ARBU rose by 8.5% compared to the first half of 2012, thanks to the sale of additional services and the spread of traffic plans.

Mobile telephony service**:** Telecom Personal mobile lines in Argentina increased by 332 thousand compared to the end of 2012, arriving at a total of 19,307 thousand lines, 33% of which were postpaid. At the same time, thanks to high-value customer acquisitions and leadership in the smartphone segment, ARPU grew by 16.8% to 63.8 pesos (54.6 pesos in the first half of 2012). A large part of this growth was attributable to value-added services (including SMS messaging and Internet) which together accounted for 56% of revenues from mobile telephony services in the first half of 2013.

In Paraguay, the Núcleo customer base grew about 3.5% compared to December 31, 2012, reaching 2,381 thousand lines, 20% of which are postpaid.

Broadband**:** Telecom Argentina s portfolio of broadband lines totaled 1,634 thousand accesses at June 30, 2013, showing substantially no change on the end 2012 figure. ARPU rose by 24.1% to 119.3 pesos (96.1 pesos in the first half of 2012), largely thanks to up-selling strategies and price adjustments.

EBITDA

EBITDA showed an increase of 484 million pesos (+15.5%) compared to the first half of 2012, reaching 3,615 million pesos. The EBITDA margin stood at 28.4%, down 1.8 percentage points compared to the first half of 2012, mainly due to higher employee benefits expenses, and other operating expenses, particularly as a result of the higher indirect tax charges resulting from the increased tax on gross revenues.

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

	(millions of euros)		(millions of Argentine pesos)		
	1st Half 2013 (a)	1st Half 2012 (b)	1st Half 2013 (c)	1st Half 2012 (d)	Change (c-d)
Acquisition of goods and services	873	839	5,870	4,773	1,097
Employee benefits expenses	280	267	1,883	1,519	364
Other operating expenses	223	197	1,496	1,122	374
Change in inventories	(21)	(28)	(139)	(157)	18

- acquisition of goods and services: totaled 5,870 million pesos (4,773 million pesos in the first half of 2012). The increase of 23.0% compared to the first half of 2012 (+1,097 million pesos) was mainly due to higher external service costs of 496 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 391 million pesos;

- employee benefits expenses: came to 1,883 million pesos, increasing 364 million pesos compared to the first half of 2012 (+24.0%). The increase was driven by salary rises, connected with the periodical review of union agreements, largely linked to inflation, which were only partially offset by the reduction in other employee benefits expenses of a total of approximately 18 million pesos. In addition, the average number of employees working in mobile telephony rose over the period, compared to the first half of 2012. The ratio of employee benefits expenses to total revenues rose to 14.8%, up 0.2 percentage points over the first half of 2012;

- other operating expenses: amounted to 1,496 million pesos, increasing 33.3% (1,122 million pesos in the first half of 2012). These expenses consisted of the following:

(millions of Argentine pesos)	1st Half 2013	1st Half 2012	Change
Write-downs and expenses in connection with credit management	165	148	17
Provision charges	81	35	46
Telecommunications operating fees and charges	243	196	47
Indirect duties and taxes	1,002	741	261

Sundry expenses	5	2	3
Total	1,496	1,122	374

EBIT

EBIT for the first half of 2013 came to 1,524 million pesos compared to 1,452 million pesos recorded for the same period of last year. The increase of 72 million pesos was substantially due to the improvement in EBITDA, partly offset by increased amortization and depreciation of 247 million pesos, also resulting from the reduction in the useful lives of Customer Relationships at the end of 2012, and impairment losses on non-current assets of 172 million pesos, mainly relating to several business projects and IT platforms which the company decided to abandon.

The EBIT margin stood at 12.0% of revenues (-2.0 percentage points compared to the first half of 2012).

Media

(millions of euros)	1st Half 2013	1st Half 2012	Change		
			amount	%	% organic
Revenues	88	119	(31)	(26.1)	(13.7)
EBITDA	(11)	(16)	5	31.2	(57.1)
EBITDA Margin	*(12.5)*	*(13.4)*		*0.9 pp*	*(5.6) pp*
EBIT	(1) (134)	(46)	(88)	-	6.5
EBIT Margin	-	*(38.7)*		-	*(2.6) pp*
Headcount at period-end (number) (°)	208	(*) 735	(527)	(71.7)	

(1)

EBIT of the Media Business Unit was driven down by 105 million euros deriving from the loss realized on the sale of La7 S.r.l. on April 30, 2013.

(°) Includes employees with temp work contracts: 9 employees at 6/30/2013 and 36 at 12/31/2012

(*) Headcount at December 31, 2012.

At June 30, 2013, the three digital multiplexes of Telecom Italia Media Broadcasting reached 95% of the Italian population.

Sale of La7 S.r.l.

On April 30, 2013, after authorization for the sale was received, as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication, on the terms and conditions announced to the market in March 2013.

The agreement followed the transfer, effective as of September 1, 2012, of a business area consisting of television assets held by Telecom Italia Media S.p.A. to La7 S.r.l., which at the time was a wholly-owned subsidiary of Telecom Italia Media S.p.A.

The broadcaster was sold at a price of approximately 1 million euros. Prior to the transfer of the investment, La7 S.r.l. was recapitalized by Telecom Italia Media S.p.A. in order to ensure that at the date of the sale the company had a positive net financial position of no less than 88 million euros. The recapitalization also contributed to giving La7 S.r.l. an agreed equity of 138 million euros.

As a result of the transaction, Telecom Italia S.p.A. has waived financial receivables due from Telecom Italia Media S.p.A. for a total amount of 100 million euros. Based on the agreements entered into and also taking account of the expected performance of La7 S.r.l. up to the date of disposal, negative income statement impacts are expected for the entire year 2013 of around 130 million euros, before amounts due to non-controlling interests. The final calculations of the exact amount of the related equity are still under way and are expected to be concluded by the end of 2013.

The sale was part of a broader plan for the corporate restructuring of the Telecom Italia Media Group, begun in 2012.

Sale of MTV Italia S.r.l.

On July 4, 2013 the agreement was signed for the sale of 51% of MTV Italia S.r.l. to Viacom International Media Networks (VIMN).

According to the main terms of the agreement, Viacom International Media Networks shall pay Telecom Italia Media a price of 10 million euros, which will be subject to adjustment on the closing date, based on the change in working capital.

Under the agreement, Telecom Italia Media has committed to waiving financial receivables due from MTV Italia at the signing date, amounting to approximately 9.3 million euros, on completion of the transaction. Completion of the transaction, subject to the authorizations prescribed in the applicable regulations, is expected by September 2013.

Lastly, the parties agreed on the long-term renewal of the supply of transmission capacity and services by Telecom Italia Media Broadcasting S.r.l. to MTV Italia S.r.l.

The operation will have a positive impact on the Telecom Italia Media Group s results, both in terms of increased earnings and reduced debt.

In light of the sale of La7 S.r.l. and the planned sale of MTV, the table below shows figures for the first half of 2013 and the first half of 2012, restated to exclude the results of both companies.

(millions of euros)	1st Half 2013	1st Half 2012	Change	
			amount	%

Revenues	39	38	1	2.6
EBITDA	18	20	(2)	(10.0)
EBITDA Margin	*46.2*	*52.6*		*(6.4) pp*
EBIT	4	7	(3)	(42.9)
EBIT Margin	*10.3*	*18.4*		*(8.1) pp*
Headcount at period-end (number)	85	(*) 88	*(3)*	*(3.4)*

(*) Headcount at December 31, 2012.

Revenues

Revenues amounted to 39 million euros in the first half of 2013, increasing 1 million euros compared to 38 million euros in the first half of 2012. The increase of 1 million euros was entirely attributable to the network operator (TIMB), which consequently strengthened the customer base acquired in 2012.

EBITDA

EBITDA was a positive 18 million euros in the first half of 2013, down 2 million euros compared to the first half of 2012. This change was mainly attributable to higher operating expenses of Telecom Italia Media S.p.A., whereas the EBITDA of the network operator (TIMB), amounting to 22 million euros, was substantially in line with the first half of 2012 and reflected the above-mentioned increase in revenues, essentially offset by several provisions charges relating to trade receivables and future expenses allocated during the period.

EBIT

EBIT was a positive 4 million euros, compared to 7 million euros in the first half of 2012, representing a drop of 3 million euros. The figure was driven down essentially by lower EBITDA, as described above, and higher depreciation and amortization charges of the network operator (TIMB) of 1 million euros.

Olivetti

On June 13, 2012 the shareholders meeting of the subsidiary Olivetti I-Jet S.p.A. approved the wind-up of the company. Moreover, on July 2, 2013 the start of the winding up of the Swiss subsidiary Olivetti Engineering S.A. was approved.

(millions of euros)	1st Half 2013	1st Half 2012	Change		
			amount	%	% organic
Revenues	124	130	(6)	(4.6)	(4.6)
EBITDA	(23)	(38)	15	39.5	(4.5)
EBITDA Margin	*(18.5)*	*(29.2)*		*10.7 pp*	*(1.6) pp*
EBIT	(25)	(41)	16	39.0	0.0
EBIT Margin	*(20.2)*	*(31.5)*		*11.3 pp*	*(1.0) pp*
Headcount at period-end (number)	*729*	(*) 778	(49)	(6.3)	

(*)

Headcount at December 31, 2012.

Revenues

Revenues amounted to 124 million euros in the first half of 2013, a decrease of 6 million euros year-on-year (130 million euros in the first half of 2012; -4.6%).

The decrease in revenues was largely linked to lower sales of copying and printing on the Italian market, where customers of SMEs and independent professionals are more exposed to the current market crisis, recording a drop of approximately 9 million euros, including 4 million euros relating to lower sales of photocopiers and related consumables and 5 million euros relating to the decrease in equipment rental. This downturn was offset by the performance of systems and specialized applications, which recorded higher revenues of 4 million euros in the half year (including 3 million euros in Italy and 1 million euros in Europe) and, on the Italian market, the increase in revenues of new services and cloud solutions (+1 million euros).

EBITDA

The item recorded a negative 23 million euros, improving by 15 million euros on the first half of the prior year. Specifically, in the first half of 2012, EBITDA was driven down by provisions for restructuring expenses of 16.5 million euros, made in June 2012 following the start of the winding up of Olivetti I-Jet S.p.A. Excluding those provisions, the organic change would have been -4.5%. The figure for the first half of 2013 was also affected by charges totaling 9 million euros, resulting from a fire which completely destroyed the spare parts warehouse on March 19, 2013. The goods were adequately insured and the Company expects to receive an insurance payout by the end of the current year equal to at least the total damages. Net of this item, the change in EBITDA would have been a positive 8 million euros (+36.4%), thanks to margins substantially holding strong in terms of percentage of sales, and to lower fixed costs (which benefited from the closure of Olivetti s ink-jet business in 2012). These two factors more than offset the lower absolute margins resulting from the decline in sales.

EBIT

EBIT recorded a negative 25 million euros, an increase of 16 million euros compared to the first half of 2012, when it stood at a negative 41 million euros. The figure was affected by the same factors driving the drop in EBITDA, described above. If the figures had been calculated excluding the aforementioned provisions for restructuring expenses in the first half of 2012 the organic change would have been zero. Excluding the losses for the first half of 2013, deriving from the destruction of the spare parts warehouse, EBIT would have improved by 9 million euros (+36.0%).

Consolidated Financial Position and Cash Flows Performance

Non-current assets

•

Goodwill: decreased 2,309 million euros, from 32,410 million euros at the end of 2012 to 30,101 million euros at June 30, 2013, as a result of the aforementioned goodwill impairment loss of 2,187 million euros for the Domestic-Core Domestic Business Unit and the exchange rate effect of the Brazilian companies. Further details are provided in the Note Goodwill in the half-year condensed consolidated financial statements at June 30, 2013 of the Telecom Italia Group.

•

Other intangible assets: decreased 342 million euros, from 7,927 million euros at the end of 2012 to 7,585 million euros at June 30, 2013, as the balance of the following:

–

additions (+1,000 million euros);

–

amortization charge for the period (-1,124 million euros);

–

disposals, exchange differences, reclassifications and other movements (for a net negative.

balance of 218 million euros).

At June 30, 2013, all the user licenses to LTE frequencies acquired by Telecom Italia S.p.A. at the end of 2011 were in use and subject to amortization. Accordingly, no finance expenses remain to be capitalized.

•

Tangible assets: decreased 632 million euros from 15,479 million euros at the end of 2012 to 14,847 million euros at June 30, 2013, as the balance of the following:

–

additions (+1,193 million euros);

–

depreciation charge for the period (-1,465 million euros);

–

disposals, impairment losses, exchange differences, reclassifications and other movements

(for a net negative balance of 360 million euros).

Consolidated equity

Consolidated equity amounted to 20,478 million euros (23,012 million euros at December 31, 2012), of which 16,692 million euros was attributable to owners of the Parent (19,378 million euros at December 31, 2012) and 3,516 million euros was attributable to non-controlling interests (3,634 million euros at December 31, 2012).

In greater detail, the changes in equity were the following:

(millions of euros)	6/30/2013	12/31/2012
At the beginning of the period	23,012	26,694
Total comprehensive income (loss) for the period	(2,006)	(2,649)
Dividends approved by:	(507)	(1,038)
Telecom Italia S.p.A.	*(452)*	*(895)*
Other Group companies	*(55)*	*(143)*
Issue of equity instruments	–	2
Telecom Argentina group buy-back of treasury shares	(12)	–
Other changes	(9)	3
At the end of the period	20,478	23,012

Cash flows

Adjusted Net Financial Debt came to 28,813 million euros, an increase of 539 million euros compared to the end of 2012, down by 1.5 billion euros compared to June 30, 2012. Cash flow in the first half of 2013, which is usually lower than in the second half of the year, was impacted to a greater extent, in the first six months, by the seasonal trend in bills payable in the last half of the previous year. Dividends and taxes were also paid totaling 0.7 billion euros, a decrease of approximately 0.5 billion euros compared to June 30, 2012.

Adjusted net financial debt during the first half of 2013 was mainly impacted by the following:

Change in adjusted net financial debt

(millions of euros)	1st Half 2013	1st Half 2012	Change
EBITDA	5,236	5,859	(623)
Capital expenditures on an accrual basis	(2,193)	(2,269)	76
Change in net operating working capital:	(1,728)	(1,329)	(399)
Change in inventories	*(96)*	*(57)*	*(39)*
Change in trade receivables and net amounts due from customers on construction contracts	*87*	*235*	*(148)*
Change in trade payables (*)	*(1,504)*	*(1,336)*	*(168)*
Other changes in operating receivables/payables	*(215)*	*(171)*	*(44)*
Change in provisions for employees benefits	(6)	(6)	–
	(32)	(12)	(20)

Change in operating provisions and Other changes			
Net operating free cash flow	1,277	2,243	(966)
% of Revenues	*9.3*	*15.2*	*(5.9) pp*
Sale of investments and other disposals flow	(72)	25	(97)
Financial investments flow	(13)	(7)	(6)
Dividend payment	(498)	(1,027)	529
Finance expenses, income taxes and other net non-operating requirements flow	(1,233)	(1,180)	(53)
Reduction/(Increase) in adjusted net financial debt	(539)	54	(593)

(*)

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

In addition to what has already been described with reference to EBITDA, net financial debt during the first half of 2013 was particularly impacted by the following items:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	1st Half 2013	% of total	1st Half 2012	% of total	Change
Domestic	1,345	61.3	1,333	58.7	12
Brazil	597	27.2	662	29.2	(65)
Argentina	231	10.5	236	10.4	(5)
Media, Olivetti and Other Operations	20	1.0	38	1.7	(18)
Adjustments and Eliminations	–	–	–	–	–
Consolidated Total	2,193	100.0	2,269	100.0	(76)
% of Revenues	*15.9*		15.3		*0.6 pp*

Capital expenditures totaled 2,193 million euros in the first half of 2013, decreasing by 76 million euros compared to the first half of 2012. In particular:

- the **Domestic Business Unit** reported substantially no change in capex year-on-year; the increase related to the progress of the plans for the creation of next generation networks (LTE and fiber) was offset by less demand for deliveries of new installations due to a slowdown in Fixed-line access sales;

- the **Brazil Business Unit** recorded a decrease in capex of 65 million euros compared to the same period of 2012 (inclusive of a negative exchange rate effect of 62 million euros). The reduction was mainly attributable to the trend in new network investments and the establishment of new contracts with key suppliers;

•

the **Argentina Business Unit** recorded a decrease in capex of 5 million euros, inclusive of a negative exchange rate effect of 36 million euros; net of that effect, capex would have increased. In addition to customer acquisition costs, capital expenditure was aimed at enlarging and upgrading broadband services on the fixed-line network, and at backhauling, to support mobile access growth. Telecom Personal also invested primarily in increased capacity and enlargement of the 3G network to support Mobile Internet growth.

Change in net operating working capital

The change over the period was -1,728 million euros. In particular:

•

the change in trade payables (-1,504 million euros) was linked to a seasonal peak in payments of bills payable. Investment spending and external costs generally peak in the final half of the year, however the related cash flows are largely postponed to the following half due to the normal payment terms and contractually applicable conditions. Specifically, in May 2013, the Brazil Business Unit made a payment of approximately 146 million euros, for the user licenses for fourth generation (4G) mobile telephony frequency bands, purchased at the end of 2012, and for second generation (2G) frequency bands. In addition, in the last quarter of 2012 payments to suppliers slowed down temporarily, by an estimated 300 million euros, due to compliance requirements of new Italian regulations introduced in the second half of the year;

•

the change in other operating receivables/payables (215 million euros) includes a negative amount of around 200 million euros, mainly resulting from the advance payment of taxes on telecommunications operations by the Brazil Business Unit. The taxes are normally paid in the first quarter of every year, and are recognized in the income statement on an accrual basis during the year;

•

the management of trade receivables generated an inflow of 87 million euros in the half year, whereas inventory management produced a net outflow of 96 million euros in the half year, primarily attributable to the Brazil and Domestic Business Units, as a result of mobile handset procurement policies designed to sustain revenues from their sale.

Sale of investments and other disposals flow

This item generated a net requirement of 72 million euros in the first half of 2013, mainly relating to the sale of La7 S.r.l. to Cairo Communication, finalized on April 30, 2013, which generated a net requirement of approximately 114 million euros. This impact was partially offset by the collection of the installments for the sale of the EtecSA Cuba investment, at the end of January 2011, and the proceeds from other sales of tangible and intangible assets.

In the first half of 2012 the item recorded net inflows of 25 million euros, and consisted primarily of the collection of installments on the sale of the EtecSA Cuba investment.

Financial investments flow

This item mainly refers to the buy-back of treasury shares by the Argentina Business Unit for an amount of 12 million euros.

In the first half of 2012 the item consisted mainly of the payment of incidental costs and other payables in connection with the acquisition of investments during the last part of 2011.

Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during the first half of 2013, of net finance expenses (1,050 million euros) and income taxes (229 million euros), as well as the change in non-operating receivables and payables.

Net financial debt

Net financial debt is composed as follows:

(millions of euros)	6/30/2013 (a)	12/31/2012 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	21,705	23,956	(2,251)
Amounts due to banks, other financial payables and liabilities	8,645	8,976	(331)
Finance lease liabilities	1,085	1,159	(74)
	31,435	34,091	(2,656)
Current financial liabilities (*)			
Bonds	3,655	3,593	62
Amounts due to banks, other financial payables and liabilities	2,677	2,338	339
Finance lease liabilities	199	219	(20)
	6,531	6,150	381
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	–	–	–
Total Gross financial debt	37,966	40,241	(2,275)
Non-current financial assets			
Securities other than investments	(13)	(22)	9
Financial receivables and other current financial assets	(1,540)	(2,474)	934
	(1,553)	(2,496)	943
Current financial assets			

Securities other than investments	(1,311)	(754)	(557)
Financial receivables and other current financial assets	(523)	(502)	(21)
Cash and cash equivalents	(4,793)	(7,436)	2,643
	(6,627)	(8,692)	2,065
Financial assets relating to Discontinued operations/Non-current assets held for sale	–	–	–
Total financial assets	(8,180)	(11,188)	3,008
Net financial debt carrying amount	29,786	29,053	733
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(973)*	*(779)*	*(194)*
Adjusted net financial debt	28,813	28,274	539
Breakdown as follows:			
Total adjusted gross financial debt	36,007	37,681	(1,674)
Total adjusted financial assets	(7,194)	(9,407)	2,213
(*) of which current portion of medium/long-term debt:			
Bonds	*3,655*	*3,593*	*62*
Amounts due to banks, other financial payables and liabilities	*2,020*	*1,681*	*339*
Finance lease liabilities	*199*	*219*	*(20)*

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

The volatility of interest rates and exchange rates, which has been a prominent feature in financial markets since the fourth quarter of 2008, has significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. Having said this and in order to present a more realistic analysis of net financial debt, starting from the Half-Year Financial Report at June 30, 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator has also been presented called Adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives (also including the effects of the introduction of IFRS 13 from January 1, 2013) and related financial assets and liabilities. The measurement of derivative financial instruments, which also has the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an actual cash settlement.

Sales of receivables to factoring companies

Sales of receivables to factoring companies finalized during the first six months of 2013 resulted in a positive effect on net financial debt at June 30, 2013 of 943 million euros (1,233 million euros at December 31, 2012).

Gross financial debt

Bonds

Bonds at June 30, 2013 were recorded for a total of 25,360 million euros (27,549 million euros at December 31, 2012). Their nominal repayment amount is 24,652 million euros, down 1,671 million euros compared to December 31, 2012 (26,323 million euros).

Changes in bonds over the first half of 2013 are shown below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. subordinated bonds, 750 million euros at 7.750%, maturing 3/20/2073 (1)	Euro	750	3/20/2013

(1)

The hybrid debt securities are Telecom Italia s first subordinated issue on the euros market. The bond has a tenor of 60 years, with final maturity in 2073 and a first call date for the issuer in 2018. The call schedule begins on March 20, 2018 at par, and then continues every five years thereafter. The coupon will step up by 25 bps in 2023, and by a further 75 bps in 2038. The effective yield at the first call date will be 7.875%. The notes are listed on the Luxembourg Stock Exchange.

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia Finance S.A. 678 million euros 6.875% (1)	Euro	678	1/24/2013
Telecom Italia S.p.A. 432 million euros at 6.750% (2)	Euro	432	3/21/2013

(1)

Net of buybacks by the Company for 172 million euros during 2011 and 2012.

(2)

Net of buybacks by the Company for 218 million euros during 2011 and 2012.

On June 3, 2013, Telecom Italia S.p.A. successfully concluded the buyback offer on three bond issues of Telecom Italia Capital S.A. in USD, maturing between June 2014 and October 2015, buying back a total nominal amount of USD 1,577 million (equal to approximately 1.2 billion euros). The repurchased bonds are in the portfolio of the buyer Telecom Italia S.p.A., while at consolidated level the bonds have been eliminated from the liabilities.

Details of the bond issues of Telecom Italia Capital S.A. bought back by Telecom Italia S.p.A. are provided below:

Bond Name	Outstanding nominal amount prior to the tender offer	Repurchased nominal amount	Repurchase price
Telecom Italia Capital S.A. USD 1,000 million 6.175%	USD 1,000,000,000	USD 220,528,000	105.382%
Telecom Italia Capital S.A. USD 1,250 million 4.950%	USD 1,250,000,000	USD 721,695,000	105.462%
Telecom Italia Capital S.A. USD 1,400 million 5.250%	USD 1,400,000,000	USD 634,797,000	108.523%

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at June 30, 2013, the nominal amount was 217 million euros and decreased by 13 million euros compared to December 31, 2012 (230 million euros).

Revolving Credit Facility and term loan

The following table shows the composition and the drawdown of the committed credit lines available at June 30, 2013:

(billions of euros)	6/30/2013		12/31/2012	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	-	-	1.25	-
Revolving Credit Facility expiring August 2014	8.0	1.5	8.0	1.5
Revolving Credit Facility expiring December 2013	0.2	-	0.2	-
Total	8.2	1.5	9.45	1.5

On May 24, 2012, Telecom Italia entered into an agreement for a Forward Start Facility of 4 billion euros, extending half the Revolving Credit Facility (RCF) of 8 billion euros expiring August 2014. The new facility will come into effect as of August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and expire in May 2017.

On March 25, 2013, Telecom Italia signed a new agreement to extend the Revolving Credit Facility (RCF) expiring August 2014, which had already been extended in part in 2012, by an additional 3 billion euros. The extension was obtained through a Forward Start Facility of 3 billion euros which will come into effect in August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and will expire in March 2018.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 7.03 years.

The average cost of the Group s debt, considered as the annualized cost for the period and resulting from the ratio of debt-related expenses to average exposure, was approximately 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial liabilities (non current and current) and Financial risk management in the Telecom Italia Group Half-year condensed consolidated financial statements at June 30, 2013.

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin amounted to 12,804 million euros at June 30, 2013, corresponding to the sum of cash and cash equivalents and current securities other than investments, totaling 6,104 million euros (8,190 million euros at December 31, 2012), and the committed credit lines, mentioned above, of which a total of 6,700 million euros has not been drawn down. This margin will cover Group Financial Liabilities due beyond the next 24 months. As already noted, the reduction in Cash and cash equivalents compared to December 31, 2012 reflected the use of liquidity to repurchase Group obligations.

In particular:

Cash and cash equivalents amounted to 4,793 million euros (7,436 million euros at December 31, 2012). The different technical forms of investing available cash at June 30, 2013, which include Euro Commercial Papers for 100 million euros, may be broken down as follows:

•

Maturities: investments have a maximum maturity of three months;

- Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality. Investments by the companies in South America are made with leading local counterparts;

- Country risk: investments are made mainly in major European financial markets.

Securities other than investments amounted to 1,311 million euros (754 million euros at December 31, 2012). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They consist of: Italian treasury bonds (BTPs) purchased by Telecom Italia S.p.A. and Telecom Italia Finance S.A., amounting respectively to 357 million euros and 671 million euros; 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012); and 268 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009.

In the second quarter of 2013, adjusted net financial debt remained substantially stable compared to March 31, 2013. The positive cash flows from operations in the quarter (approximately 1.1 billion euros) were fully absorbed by requirements for the payment of dividends, finance expenses and taxes, the effects of the sale of La7, at the end of April, and the above-mentioned payment for user licenses for mobile telephony frequencies in Brazil.

(millions of euros)	6/30/2013	**3/31/2013**	**Change**
Net financial debt carrying amount	29,786	29,516	270
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(973)*	*(749)*	(224)
Adjusted net financial debt	28,813	28,767	46
Breakdown as follows:			
Total adjusted gross financial debt	36,007	37,222	(1,215)
Total adjusted financial assets	(7,194)	(8,455)	1,261

The Half-Year Financial Report at June 30, 2013 of the Telecom Italia Group has been prepared as set out in art. 154-ter (Financial Reports) of Legislative Decree 58/1998 (Consolidated Law on Finance TUF), with subsequent amendments and additions, and drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union (denominated IFRS), as well as the measures enacted implementing art. 9 of Legislative Decree 38/2005.

The Half-year Financial Report includes:

- *the Interim Management Report;*
- *the Half-year Condensed Consolidated Financial Statements;*
- *the Certification of the Half-year Condensed Consolidated Financial Statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with amendments and additions.*

The accounting policies and principles of consolidation adopted in the preparation of the half-year condensed consolidated financial statements at June 30, 2013 have been applied on a basis consistent with those used for the consolidated financial statements at December 31, 2012, to which reference should be made, except for the new principles and interpretations adopted by the Group starting from January 1, 2013. The impacts of these new principles and interpretations are described in the notes to the half-year condensed consolidated financial statements at June 30, 2013, to which reference should be made.

The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; net financial debt carrying amount and adjusted net financial debt. Further details on such measures are presented under Alternative performance measures .

Moreover, the part entitled Business Outlook for the Year 2013 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the present Half-year Financial Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which is beyond the scope of the Group s control.

Principal changes in the scope of consolidation

In the first half of 2013, the following changes occurred in the scope of consolidation:

- *La7 S.r.l. - Media: on April 30, 2013, after authorization for the sale was received, as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication. As a result, the company was excluded from the scope of consolidation.*

The following changes occurred during 2012:

•

Matrix Other Operations: the company was sold on October 31, 2012, and consequently excluded from the scope of consolidation.

Separate Consolidated Income Statements

(millions of euros)	1st Half 2013 (a)	1st Half 2012 (b)	Change (a-b) amount	%
Revenues	13,760	14,793	(1,033)	(7.0)
Other income	110	108	2	1.9
Total operating revenues and other income	13,870	14,901	(1,031)	(6.9)
Acquisition of goods and services	(6,154)	(6,500)	346	5.3
Employee benefits expenses	(1,931)	(2,006)	75	3.7
Other operating expenses	(941)	(897)	(44)	(4.9)
Change in inventories	114	62	52	83.9
Internally generated assets	278	299	(21)	(7.0)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,236	5,859	(623)	(10.6)
Depreciation and amortization	(2,589)	(2,676)	87	3.3
Gains (losses) on disposals of non-current assets	(81)	16	(97)	
Impairment reversals (losses) on non-current assets	(2,213)	–	(2,213)	-
Operating profit (loss) (EBIT)	353	3,199	(2,846)	(89.0)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	–	(4)	4	-
Other income (expenses) from investments	2	–	2	-
Finance income	1,487	1,272	215	16.9
Finance expenses	(2,436)	(2,189)	(247)	(11.3)
Profit (loss) before tax from continuing operations	(594)	2,278	(2,872)	
Income tax expense	(633)	(822)	189	23.0
Profit (loss) from continuing operations	(1,227)	1,456	(2,683)	
Profit (loss) from discontinued operations/non-current assets held for sale	3	–	3	-
Profit (loss) for the period	(1,224)	1,456	(2,680)	
Attributable to:				
Owners of the Parent	(1,407)	1,242	(2,649)	

Non-controlling interests	183	214	(31)	(14.5)

Consolidated Statements of Comprehensive Income

In accordance with IAS 1 *(Presentation of Financial Statements)*, the following statements of consolidated comprehensive income include the profit (loss) for the period as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		1st Half 2013	1st Half 2012
Profit (loss) for the period	(a)	(1,224)	1,456
Other components of the Consolidated Statements of Comprehensive Income:			
Other components that subsequently will not be reclassified in the separate consolidated income statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		3	4
Net fiscal impact		(2)	(1)
	(b)	1	3
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Net fiscal impact		–	–
	(c)	–	–
Total other components that subsequently will not be reclassified in the separate consolidated income statements	(d=b+c)	1	3
Other components that subsequently will be reclassified in the separate consolidated income statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		(31)	31
Loss (profit) transferred to the Separate Consolidated Income Statement		1	1
Net fiscal impact		6	(7)
	(e)	(24)	25
Hedging instruments:			
Profit (loss) from fair value adjustments		(472)	(76)
Loss (profit) transferred to the Separate Consolidated Income Statement		277	39
Net fiscal impact		55	10
	(f)	(140)	(27)

Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(620)	(337)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		–	–
Net fiscal impact		–	–
	(g)	(620)	(337)
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		1	–
Loss (profit) transferred to the Separate Consolidated Income Statement		–	–
Net fiscal impact		–	–
	(h)	1	–
Total other components that subsequently will be reclassified in the separate consolidated income statements	(i=e+f+g+h)	(783)	(339)
	–	–	
Total other components of the consolidated statements of comprehensive income	(k=d+i)	(782)	(336)
Total comprehensive income (loss) for the period	(a+k)	(2,006)	1,120
Attributable to:			
Owners of the Parent		(1,925)	1,018
Non-controlling interests		(81)	102

Consolidated Statements of Financial Position

(millions of euros)	6/30/2013 (a)	12/31/2012 (b)	Change (a-b)
Assets			
Non-current assets			
Intangible assets			
Goodwill	30,101	32,410	(2,309)
Other intangible assets	7,585	7,927	(342)
	37,686	40,337	(2,651)
Tangible assets			
Property, plant and equipment owned	13,884	14,465	(581)
Assets held under finance leases	963	1,014	(51)
	14,847	15,479	(632)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	65	65	–
Other investments	42	39	3
Non-current financial assets	1,553	2,496	(943)
	1,603	1,496	107

Miscellaneous receivables and other non-current assets				
Deferred tax assets		945	1,432	(487)
		4,208	5,528	(1,320)
Total Non-current assets	(a)	56,741	61,344	(4,603)
Current assets				
Inventories		536	436	100
Trade and miscellaneous receivables and other current assets		7,095	7,006	89
Current income tax receivables		50	77	(27)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,834*	*1,256*	*578*
Cash and cash equivalents		*4,793*	*7,436*	*(2,643)*
		6,627	8,692	(2,065)
Current assets sub-total		14,308	16,211	(1,903)
Discontinued operations/Non-current assets held for sale				
of a financial nature		–	–	–
of a non-financial nature		–	–	–
		–	–	–
Total Current assets	(b)	14,308	16,211	(1,903)
Total Assets	(a+b)	71,049	77,555	(6,506)

(millions of euros)		6/30/2013 (a)	12/31/2012 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		16,962	19,378	(2,416)
Equity attributable to non-controlling interests		3,516	3,634	(118)
Total Equity	(c)	20,478	23,012	(2,534)
Non-current liabilities				
Non-current financial liabilities		31,435	34,091	(2,656)
Employee benefits		862	872	(10)
Deferred tax liabilities		649	848	(199)
Provisions		855	863	(8)
Miscellaneous payables and other non-current liabilities		984	1,053	(69)
Total Non-current liabilities	(d)	34,785	37,727	(2,942)
Current liabilities				
Current financial liabilities		6,531	6,150	381
Trade and miscellaneous payables and other current liabilities		9,137	10,542	(1,405)
Current income tax payables		118	124	(6)
Current liabilities sub-total		15,786	16,816	(1,030)
Liabilities directly associated with discontinued operations/non-current assets held for sale				
of a financial nature		–	–	–
of a non-financial nature		–	–	–

		–	–	–
Total Current Liabilities	(e)	15,786	16,816	(1,030)
Total Liabilities	(f=d+e)	50,571	54,543	(3,972)
Total Equity and Liabilities	(c+f)	71,049	77,555	(6,506)

Consolidated Statements of Cash Flows

(millions of euros)		1st Half 2013	1st Half 2012
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,227)	1,456
Adjustments for:			
Depreciation and amortization		2,589	2,676
Impairment losses (reversals) on non-current assets (including investments)		2,213	1
Net change in deferred tax assets and liabilities		352	627
Losses (gains) realized on disposals of non-current assets (including investments)		80	(16)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		–	4
Change in provisions for employees benefits		(6)	(6)
Change in inventories		(96)	(57)
Change in trade receivables and net amounts due from customers on construction contracts		87	235
Change in trade payables		(851)	(695)
Net change in current income tax receivables/payables		16	(54)
Net change in miscellaneous receivables/payables and other assets/liabilities		(69)	(192)
Cash flows from (used in) operating activities	(a)	3,088	3,979
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(1,000)*	*(917)*
Purchase of tangible assets on an accrual basis		*(1,193)*	*(1,352)*
Total purchase of intangible and tangible assets on an accrual basis		(2,193)	(2,269)
Change in amounts due to fixed asset suppliers		*(653)*	*(641)*
Total purchase of intangible and tangible assets on a cash basis		(2,846)	(2,910)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		–	(7)
Acquisitions/disposals of other investments		–	–
Change in financial receivables and other financial assets		259	236
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		(118)	(5)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		46	30
Cash flows from (used in) investing activities	(b)	(2,659)	(2,656)
Cash flows from financing activities:			
Change in current financial liabilities and other		(1,404)	(100)
		1,577	1,846

Proceeds from non-current financial liabilities (including current portion)			
Repayments of non-current financial liabilities (including current portion)		(2,679)	(2,687)
Share capital proceeds/reimbursements (including subsidiaries)		–	(2)
Dividends paid		(498)	(1,027)
Changes in ownership interests in consolidated subsidiaries		(12)	–
Cash flows from (used in) financing activities	(c)	(3,016)	(1,970)
Cash flows from (used in) discontinued operations/non-current assets held for sale	(d)	–	–
Aggregate cash flows	(e=a+b+c+d)	(2,587)	(647)
Net cash and cash equivalents at beginning of the period	(f)	7,397	6,670
Net foreign exchange differences on net cash and cash equivalents	(g)	(104)	(28)
Net cash and cash equivalents at end of the period:	(h=e+f+g)	4,706	5,995

Additional Cash Flow Information

(millions of euros)	1st Half 2013	1st Half 2012
Income taxes (paid)/ received	(229)	(241)
Interest expense paid	(1,650)	(1,875)
Interest income received	600	727
Dividends received	2	–

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Half 2013	1st Half 2012
Net cash and cash equivalents at beginning of the period:		
Cash and cash equivalents - from continuing operations	7,436	6,714
Bank overdrafts repayable on demand – from continuing operations	(39)	(44)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for	–	–

sale	7,397	6,670
Net cash and cash equivalents at end of the period:		
Cash and cash equivalents - from continuing operations	4,793	6,029
Bank overdrafts repayable on demand – from continuing operations	(87)	(34)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	4,706	5,995

Analysis of the main consolidated financial and operating items

Acquisition of goods and services

(millions of euros)	1st Half 2013	1st Half 2012	Change
Purchases of goods	1,412	1,262	150
Portion of revenues to be paid to other operators and interconnection costs	1,694	2,139	(445)
Commercial and advertising costs	1,001	1,064	(63)
Power, maintenance and outsourced services	901	904	(3)
Rent and leases	344	328	16
Other service expenses	802	803	(1)
Total acquisition of goods and services	6,154	6,500	(346)
% of Revenues	*44.7*	*43.9*	*0.8 pp*

Employee benefits expenses

(millions of euros)	1st Half 2013	1st Half 2012	Change
Employee benefits expenses - Italy	1,456	1,544	(88)
Ordinary employee expenses and costs	1,435	1,528	(93)
Restructuring expenses	21	16	5
Employee benefits expenses Outside Italy	475	462	13
Total employee benefits expenses	1,931	2,006	(75)
% of Revenues	*14.0*	*13.6*	*0.4 pp*

Average headcount of the salaried workforce

(equivalent number)		1st Half 2013	1st Half 2012	Change
Average salaried workforce	Italy	49,457	52,275	(2,818)
Average salaried workforce	Outside Italy	26,715	25,876	839
Total Average salaried workforce (1)		76,172	78,151	(1,979)

(1)

Includes employees with temp work contracts: 35 average headcount in the first half of 2013 (32 in Italy and 3 outside Italy). In the first half of 2012, the average headcount was 52 (50 in Italy and 2 outside Italy).

Headcount at period-end

(number)		6/30/2013	12/31/2012	Change
Headcount	Italy	53,622	54,419	(797)
Headcount	Outside Italy	28,541	28,765	(224)
Total (1)		82,163	83,184	(1,021)

(1)

Includes employees with temp work contracts: 14 at June 30, 2013 and 43 at December 31, 2012.

Headcount at period-end   Breakdown by Business Unit

(number)	6/30/2013	12/31/2012	Change
Domestic	52,997	53,224	(227)
Brazil	11,494	11,622	(128)
Argentina	16,713	16,803	(90)
Media	208	735	(527)
Olivetti	729	778	(49)
Other Operations	22	22	-
Total	82,163	83,184	(1,021)

Other income

(millions of euros)	1st Half 2013	1st Half 2012	Change

Late payment fees charged for telephone services	33	37	(4)
Recovery of employee benefit expenses, purchases and services rendered	19	19	–
Capital and operating grants	11	9	2
Damage compensation, penalties and sundry recoveries	17	16	1
Sundry income	30	27	3
Total	110	108	2

Other operating expenses

(millions of euros)	1st Half 2013	1st Half 2012	Change
Write-downs and expenses in connection with credit management	236	270	(34)
Provision charges	60	56	4
Telecommunications operating fees and charges	292	337	(45)
Indirect duties and taxes	216	189	27
Penalties, settlement compensation and administrative fines	16	11	5
Association dues and fees, donations, scholarships and traineeships	13	14	(1)
Sundry expenses	108	20	88
Total	941	897	44

Reconciliation between reported data and organic data

EBITDA reconciliation of organic data

	TELECOM ITALIA GROUP		Domestic		Olivetti	
(millions of euros)	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012
HISTORICAL EBITDA	5,236	5,859	3,824	4,406	(23)	(38)
Changes in the scope of consolidation		32		–		–
Foreign currency financial statements translation effect		(179)		(1)		–
Non organic (revenues and income) costs and expenses	119	34	119	18	–	16
Disputes and settlements	*86*	*12*	*86*	*12*	–	–
Restructuring expenses	*21*	*16*	*21*	–	–	*16*

Other (income) expenses, net	*12*	*6*	*12*	*6*	*–*	*–*
COMPARABLE EBITDA	5,355	5,746	3,943	4,423	(23)	(22)

EBIT – reconciliation of organic data

	TELECOM ITALIA GROUP		Domestic		Media		Olivetti	
(millions of euros)	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012	1st Half 2013	1st Half 2012
HISTORICAL EBIT	353	3,199	(147)	2,605	(134)	(46)	(25)	(41)
Changes in the scope of consolidation		46		–		15		–
Foreign currency financial statements translation effect		(83)		–		–		–
Non-organic (revenues and income) costs and expenses already described under EBITDA	119	34	119	18	–	–	–	16
Capital loss related to the sale of La7 S.r.l.	105	–	-	–	105	–	–	–
Gains on disposals of non-current assets	–	(21)	–	(21)	–	–	–	–
Impairment loss on Core Domestic goodwill	2,187	–	2,187	–	–	–	–	–
Other non-organic line items	(1)	–	–	–	–	–	–	–
COMPARABLE EBIT	2,763	3,175	2,159	2,602	(29)	(31)	(25)	(25)

Business Outlook for the Year 2013

As for the Telecom Italia Group's outlook for the current year, the objectives linked to the principal financial and economic indicators are the following for the full year 2013:

•

Revenues basically unchanged compared to 2012;

•

Mid-single digit decline in percentage EBITDA;

•

Adjusted net financial debt under 27 billion euros.

It should be noted that final results may differ, even significantly, from those forecast for the year 2013. The forward-looking information is in fact based on certain assumptions, believed to be reasonable, particularly with regard to the competition dynamics in the telecommunications market, the continuous development of competition in the TLC business as a result of the possible entry of new competitors and the introduction of new and innovative technologies, the growth prospects of the economy and the TLC market, in Italy and in other markets in which the Group operates, possible legislative and regulatory developments, and the performance of financial markets. By their nature these assumptions entail risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

The main factors include:

•

Changes in the general macroeconomic situation in the Italian, European and South American markets, as well as the volatility of financial markets in the Eurozone:

The global economic crisis and the continuing weakness of the Italian economy over the past few years have adversely affected the telecommunications business. The continuation of this crisis could reduce purchases of products and services and adversely affect the Group s results, cash flows and financial position.

Operations and investments may be adversely affected by developments in the overall situation, including economic, of the countries where the Group is present.

Fluctuations in exchange rates and interest rates may adversely affect the Telecom Italia Group s results.

•

Changes in business conditions:

The intense competition in Italy and other countries could reduce the Group s market share for telecommunications services and may lead to lower prices and margins, resulting in an adverse effect on its operating results and financial position. In particular, the mobile markets are mature markets and competitive pressure has further increased.

The performance of the business and cash flows may be adversely affected if we are unable to deploy new services, in order to promote greater use of our fixed and wireless networks. The continuing rapid changes in technology may increase the level of competition, reduce the use of traditional services and require us to make further substantial investments.

•

Changes to laws and regulations:

As the Group operates in a highly regulated industry, the decisions of the supervisory and regulatory authorities, including those on regulated tariffs, as well as changes in the regulatory environment, could adversely affect the performance of the business.

•

The outcome of disputes and litigation with regulators, competitors and other entities:

The Group has to deal with disputes and litigation with tax authorities, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of settlement unfavorable to the Group, these issues may, individually or as whole, have an adverse effect on its operating results, financial position and cash flows.

•

Financial risks:

The above-mentioned unfavorable macroeconomic and market environment requires us to consider the downgrading of the Group s credit rating by rating agencies as one of the possible risks it is exposed to.

The Group s bond issues do not contain financial covenants (such as Debt/EBITDA, EBITDA/Interests ratios or similar), or clauses that force the early repayment of loans due to events other than insolvency.

The risks and/or impacts deriving from a possible downgrade on future refinancings, the costs connected to them and the goodwill evaluation process cannot be estimated at present. The increased risk levels for our financial counterparts which would arise from a possible downgrade of Telecom Italia s credit rating may involve an increase in the costs connected to the management of the hedging derivatives Group portfolio, costs that also cannot be estimated at present.

Further details are provided in the Notes to the Telecom Italia Group Half-year condensed consolidated financial statements at June 30, 2013, and in particular in the Note Events Subsequent to June 30, 2013 Request for information from the Italian Securities Commission (Consob) pursuant to article 114, paragraph 5, of Legislative Decree 58/98 .

Events Subsequent to June 30, 2013

With regard to subsequent events, reference should be made to the specific Note Events Subsequent to June 30, 2013 in the Telecom Italia Group Half-year condensed consolidated financial statements at June 30, 2013.

Key commercial developments in the Group s Business Units

Domestic

In relation to its traditional business, Telecom Italia s strategy in the Fixed-line segment has been to defend access volumes and value. The main drivers in the Mobile segment, on the other hand, have been defending market share and raising usage. Innovation strategy in the Fixed-line and Mobile segments has instead focused on the development of new networks, ultra broadband delivered by fiber, LTE and cloud services.

Consumer

In the Consumer Fixed-line segment, competition stiffened further in the first half of 2013 with the launch of particularly aggressive deals by all mobile operators. In this context, Telecom Italia continued to boost the acquisition of new lines by constantly updating its range of deals offered.

The second quarter of 2013 saw the launch of the new TIM SCONTA&RADDOPPIA range, which Telecom Italia used to focus on a distinctive positioning strategy in synergy with Fixed-line assets, in order to enhance the range of deals for Tim and Telecom Italia customers. The deal offers the advantage of doubling the features available to customers that use Telecom Italia fixed lines.

At the approach of summer, typically accompanied by increased activity and operations in the market, to defend its Customer Base, Telecom Italia launched TIM ti Regala l Estate which refunds customers, in August, the amount they spent up to July 31. Concurrently, in order to capture new customers from the competition and increase acquisitions via MNP (Mobile Number Portability), TIM Special was launched. This deal is targeted to new customers and offers an all-inclusive package with extremely favorable conditions (400 minutes to all mobile operators, 1000 SMS, 2 Gb, unlimited calls to a TIM number and the Cubomusica service at 10 euros per month).

The high-value segment also saw a gradual increase in competition in the first half of 2013, as all competitors developed Unlimited deals. To defend its high-value customer base, in April, TIM launched the highly successful TIMxTe deal, reserved for customers that have been with TIM for more than one year, offering bonus top-ups and a Smartphone.

In the Mobile Broadband services, the first half of 2013 was marked by a significant acceleration in Highspeed and 4G-LTE services. In June, Telecom Italia increased to 139 the number of Italian municipalities where the new internet services on the 4G-LTE network are available, reaching an outdoor coverage of over 25% of the national population. This significant boost to the program to extend the new 4G-LTE network is the result of the significant investments made by Telecom Italia to build increasingly modern infrastructure capable of offering new cutting-edge services that meet the needs of individuals and the growing quantity of traffic generated by mobile phones, internet sticks, smartphones and tablets. The ULTRA Internet 4G sales campaign features high service levels and higher data traffic bundles compared to the 3G standard, as well as TIM Cloud services and the range of exclusive content that takes advantage of the higher network performance.

With regard to the range of products and services in the Fixed-line Consumer segment, in the first half of 2013, the Group continued to push its strategy for winbacks, growth in value and customer loyalty, leveraging on service quality, transparency, customer focus and innovative broadband services. Accordingly, promotional and commercial activities continued for the Internet Senza Limiti, Tutto Senza Limiti and Superinternet deals, which were accompanied by the launch of the new TI Cloud per le famiglie, which offers data back up on the Nuvola Italiana (Italian Cloud). To support winbacks, the Chiama TIM was also extended, which includes 200 minutes of calls to all TIM mobile phones, free for 6 months, for all customers returning to Telecom Italia.

In the area of simplification, Telecom Italia continued its approach of offering its customers increasingly clear and transparent pricing for calls from their home fixed lines. On April 1, 2013 a single calling rate was introduced for all national voice calls and fixed-to-mobile calls, offering customers greater freedom in using their home fixed lines. Telecom Italia is the first European operator to overcome the long-standing distinction between fixed-line and mobile calls.

At the same time, the cost of Telecom Italia s basic telephone line rental charge, which had not risen since July 2011, was adjusted to inflation for the period. As a result, it increased from 16.64 to 17.40 euros per month, still among the lowest in Europe.

During the half-year, the program continued for the development of Ultrabroadband on the fiber optic network both using FTTCab (Fiber to the Cabinet) architecture, increasing from 6 towns covered at the beginning of the year to 27 towns at the end of June, and using FTTH (Fiber to the Home) architecture, with the launch of the service in the city of Milan.

Business

The world of fixed-line telephony has been revolutionized with the launch of Tuttofibra, the new optic fiber deal through which Telecom Italia has opened the doors to ultra broadband technology with its Next Generation Network. For small businesses taking advantage of the deal, Tuttofibra is their key to the world of Impresa Semplice, to technologically advanced and high performance services, and to cloud computing solutions that can boost their competitiveness. Seven major Italian cities (Milan, Rome, Naples, Turin, Bari, Bologna and Genoa) were chosen by Telecom Italia for the launch of the Tuttofibra option for the Impresa Semplice deal, which mirrors the Ultrabroadband Nuvola Italiana services already available to large enterprises.

With a view to further development of broadband usage, the **EVOLUZIONE UFFICIO** service was also launched on fiber: a Virtual Switchboard available in 2 different sizes, which provides integrated fixed-mobile VoIP services to small companies.

In parallel, the fiber range was also enhanced for high-end customers, in the **Ethernity** family of products and services, increasing the number of Italian provinces covered, simplifying internal processes and updating pricing to improve competitiveness.

In the range of basic deals for SoHO customers, where competitive pressure is particularly strong, a selective cross-selling initiative was launched in June (Promozione Estate) aimed at winning back customers in ULL or enhancing the density in the Customer Base.

The range of Information Technology services was enhanced with a new series of data security solutions, designed to assist and support customers at every stage of their extended enterprise life cycle. In particular:

- Nuvola IT SECURITY CONSULTING, is designed to assist customers in making the right investment choices to boost their ICT security.
- Nuvola IT HOST PROTECTION: a technological platform for customers who want to increase the level of protection of their Business Applications and do not require HW/SW to be installed at their premises;
- Nuvola IT DATASPACE EASY: Cloud Storage (Remote Folder) also targeted to the SME segment, offering 500 GB of space that can be split up, with the possibility of reselling by Value Added Resellers (VAR);
- Nuvola IT DIGITAL CLINIC: Medical Records stored in the Cloud, available both for local health authorities, local health program planning units and private hospitals.

The Mobile segment saw the launch of new solutions for LTE networks. The new LTE network range is now accessible from a wide range of devices, including fixed-line and mobile devices, pen drives and wireless routers, tablets and smartphones. The services offer greater productivity and an enhanced user experience for the business applications used by our customers, improving Internet and intranet browsing, real time unified communication and collaboration services, instant messaging, video streaming, video conferencing, and mobile CRM, to name just a few examples.

The range of basic deals has been retained, with a view to providing an effective response to competitor aggression (through selective repositioning of the price point) and enhancing the range with VAS solutions such as Mobile Device Management - and new all-inclusive roaming deals. Accordingly, increasing focus was placed on Fixed/Mobile convergent customers an area of competitive advantage alongside a focus on the strategic components of the service rather than accessory components such as devices, which are still present within the range of deals, but less central for the purpose of promoting the Company s mobile network assets.

The coordinated actions concerning the range of solutions as well as the drive on commercial channels, implemented since the start of 2013, resulted in a significant reversal of the trend in the MNP level. This was especially clear in the Small Enterprise segment, which, in the second quarter of 2013, achieved the target of a positive level not only overall, but also in direct comparison with its competitors individually and in all the local organizations.

Brazil

Recently, at a meeting held in Brasilia, attended by the Minister of Communications and the Chairman of Anatel, among others, the Chairman of TIM Brasil, Rodrigo Abreu presented the Portas Abertas initiative, launched at the beginning of 2013 to support quality and transparency. The purpose of the meeting was to emphasize TIM Brasil s commitment to quality and transparency, strengthening dialog with the regulator and institutions.

As part of the new range of deals, TIM Brazil launch a new international roaming deal for the prepaid market valid until September for tourists going on holiday in Brazil, offering a discount of up to 60% on international rates, including voice, data and SMS messaging.

In the post-paid segment, TIM Brasil launched two new internet plans, in addition to the previous Liberty Web Smart (300 Mb at 29.90 reais per month, only when used), named Liberty WEB 300 Mb at 21.90 reais per month and Liberty WEB 600 Mb at 34.90 reais per month, invoicing the customer on a monthly basis irrespective of use.

Following on from the success of the EXPRESS rate plans, which consist in payment for services using credit cards, two new plans were launched in the second quarter. Specifically, Liberty Express (69.90 reais per month) includes unlimited on-net calls, SMS and internet usage up to 200MB, as well as a 30 reais credit per SIM card, to be used for any other voice or data service (equivalent, for example, to 50 minutes of local calling). Customers also have the Extra Credit option, which, when activated, automatically tops up the SIM card by 20 reais, when the customer s remaining credit is less than 5 reais.

Lastly, TIM Brasil launched the first EXPRESS plan for internet sticks and tables, named TIM Liberty Web Express. This new plan has three options: Liberty Web Express Light (500 MB for 35.00 reais per month); Liberty Web Express Tablet (800 MB for 49.90 reais per month) and Liberty Web Express Modem (3 GB for 61.00 reais per month).

In the second quarter, TIM Brasil continued with its strategy of facilitating internet access via handsets, by providing a larger range of products, making available the leading devices present on the market at competitive prices, although without subsidized offers to customers.

In the second quarter of 2013 TIM Brasil increased its range of OTT solutions by launching TIMusic. This application provides access to millions of songs at a competitive price, with an innovative method for using the service: 0.50 reais per day for customers with prepaid rate plans (Infinit Music) and 9.90 reais per month for customers with subscriptions (Liberty Music). The service is only charged for the days or months it is actually used. New users can try the service for free for seven days. This platform does not erode network bandwidth, as users can download music both using the TIM network and Wi-Fi networks, and can also play songs off-line, once the service has been activated. All the songs are legally licensed and there are no limits to how much music users can download and listen to.

After being the first Brazilian company to test handsets equipped with NFC technology for mobile payment solutions, in partnership with Itaú, Gemalto and MasterCard, TIM Brasil has implemented a new pilot project with Bradesco, VISA and Cielo. Within this project, customers selected by Bradesco who are holders of VISA debit cards can use their mobile phones in Rio de Janeiro and San Paolo, after registering on the NFC platform, to make payments at POS terminals on the Cielo network. This partnership also involves LG and Motorola, which will provide the handsets.

For the second year running, TIM Brasil sponsored the Dream Football project, developed by the Portuguese former footballer Luis Figo. Dream Football gives aspiring footballers the chance to demonstrate their abilities through videos shown on the website. These videos are analyzed by famous footballers, and the winners selected can then play in a tournament. The initiative was held in Rio de Janeiro and more than 400 boys from 9 to 14 years of age participated. The winners will have the chance to take part in trials with a prestigious Rio de Janeiro football team, as well as a week of training

at the football schools of Barcelona and Rio de Janeiro. This project is part of TIM Brasil s social and sports initiatives aimed at promoting and supporting the game of football in Brazil.

Argentina

Fixed-line telephony and broadband services

In the fixed-line segment, residential voice revenues showed moderate growth in the first half of 2013, driven primarily by the rise in sales of monthly rate plans and supplementary services, which increased the ARBU, counteracting the negative effects of the decline in MOU (minutes of use) due to the substitution effect of mobile traffic.

In the VAS Voice segment, efforts continued to be focused in 2013 on satisfying customer demand and increasing ARBU on access lines by pushing packages and maintenance services, increasing their weight in the fixed-line business.

As for Internet services, the Arnet brand developed differentiated deals for each segment at competitive prices, and offered a wider range of deals in terms of access speed.

Mobile telephony services

Through the Personal brand, Telecom Personal continued to focus on affordability, with sales campaigns that provide customers with additional top-up credit and with savings packages comprising voice, data and SMS deals, to provide a flexible approach with the best price on the market. Personal also expanded its range of smartphones included in the premium service platform (Personal Black), with the addition of the latest models on the international market.

The main Núcleo deals focused on the acquisition of prepaid customers, on developing unlimited packages to encourage consumption and on offering high value services in the post-paid segment. In Mobile Internet, Núcleo launched a product with LTE technology, which allows customers to experience next generation networks.

Olivetti

At the start of the half year, Olivetti launched the first mobile graphometric signature package for Android devices. Using this software, VAR/System Integrators can develop projects for signing documents using tablets, thus favoring the dissemination of this solution abroad.

In the Finance sector, new dematerialization projects were launched using graphometric signatures with several banks and insurance companies. Similar projects were expanded with Intesa Sanpaolo, Poste Italiane and an international insurance company, and negotiations in the area of mobile applications were established with three new banking customers.

In other sectors, following the project for Gaz de France Suez, the solution for signing contracts using tablets was adopted by a leading energy company and projects were launched for EXPO 2015 (Olisafe) and for a well-known operator in the travel insurance sector (mobile apps).

In the international arena, the contracts for the first project for graphometric signature were finalized in Brazil, involving over two thousand teller counters.

In the Retail segment, during the first half of the year, Olivetti developed Olivetti Qui! Servizi , the new platform that integrates the services of the Qui! Group (the leading Italian company in the sector of service benefits for company welfare) for the automated management of lunch vouchers and paper and electronic service benefits into the cutting-edge cash register system Nettuna@ 7000. The infrastructure created is also designed to provide new services to retailers, such as acceptance of payment cards, top-ups of prepaid cards and the management of promotional coupons. Currently, a pilot program is under way in Turin, while the official launch is due in September 2013.

In the Banking sector, a contract has been signed with a leading Austrian bank for the supply of 3,000 MB-2 multifunction bank devices, for a value of approximately 1.2 million euros, reflecting the growing use of dematerialized documents at teller counters in banks and post offices. With Equitalia a contract was signed for an initial delivery of 120 new Oliscan A600 desktop scanners. This contract, which provides for an additional 600 units over the year, is highly significant, as it was concluded immediately following the commercial launch of the product.

In the area of Multiple Service Terminals, in the first half of 2013 Olivetti completed the first delivery of 300 new M-206s in Azerbaijan for use in the lottery segment.

In the area of Smart Asset Management the delivery of 45,000 modules for managing LPG tanks for residential use (turnover of 1.8 million euros), reaching a volume of 105,000 units to date.

In Education, Olivetti was awarded additional tenders from the Sardinia Region for the supply of Interactive Multimedia Boards (IMBs), exceeding 3,100 kits at the end of the first half of 2013.

In the area of Office Solutions, Olivetti was awarded the Ferservizi tender (company of the Ferrovie dello Stato Group) for the supply of a full-service rental (approximately 2,000 multifunctional units, consumables and installation/maintenance services) for 4 years, with a value of approximately 6 million euros, which could prove important in creating further opportunities.

Principal changes in the regulatory framework

Domestic

Process of establishing companies for the access network

On May 30, 2013 the Telecom Italia Board of Directors resolved to proceed with the spin-off of the business unit relating to passive services for access to the fixed network and to the electronics deployed in street cabinets for the creation of new generation broadband services.

The spin-off is also aimed at achieving the Equivalence of Inputs which, in line with the European Recommendation to be issued on costing and non-discrimination, should attenuate the regulatory constraints for the three-year period 2014-2016.

The Company promptly informed AGCom of the voluntary separation project, pursuant to art. 50 ter, paragraph 1 of the Electronic Communications Code, to allow AGCom to assess the effect of the operation by launching a coordinated analysis of the access markets.

In June and July, preliminary information was gathered, from the Company s offices and those of AGCom, with specific regard to: the area of the network to be separated; the governance of the EOL system; the methods and timing for implementing the EOL model.

On July 26, the Authority notified Telecom Italia that it had assessed the proposed spin-off of the access network with the implementation of the EOL model, and found that the requirements of trustworthiness and reliability envisaged in the BEREC guidelines on functional separation had been met. The Authority also announced that a coordinated analysis of the access markets will be conducted in September (in accordance with the procedure envisaged by art. 50 ter, paragraph 2 of the Electronic Communications Code) and invited the Company to confirm its intention to continue the project and to make available all necessary information for assessment.

The Telecom Italia Board of Directors held on August 1, 2013 noted that AGCom has positively completed the preliminary investigation, and has confirmed its willingness to proceed with the spin-off plan, as already announced on 30 May.

Wholesale fixed markets

Wholesale access services

On September 4, 2012, with regulation 390/12/CONS, AGCom initiated the third cycle of analysis of the retail and wholesale fixed-line access markets, in order to define the new rates for wholesale copper and fiber access services and the new WACC value, valid for the three-year period 2013-2015. However, as a result of the Authority s highly rigid interpretation of a request from the European Commission to standardize the economic space between wholesale Unbundling (ULL), Wholesale Line Rental (WLR) and bitstream services (consistency of the economic space between different access products), in December 2012 and March 2013 AGCom launched the public consultations concerning, respectively, the level of subscription charges for 2013 for WLR services (Resolution 141/12/CIR), bitstream services (642/12/CONS) and ULL services (Resolution 221/13/CONS), effectively announcing the results of the 3rd cycle of analysis of the retail and wholesale fixed-line access markets with said Resolution 390/12/CONS.

On March 21, 2013 the public consultation concerning the analysis of the retail and wholesale fixed-line access markets was published (Resolution 238/13/CONS), which will define the new rates for wholesale copper and fiber access services and the new value of WACC for the three-year period 2014-2016, thus extending the validity of the analysis launched on September 4, 2012 by one year. In particular, for wholesale copper access services, shown below are the rates proposed in the resolutions under consultation for 2013 and the rates proposed up to 2016 as part of the market analysis mentioned above (for 2014 and 2015, the values of the single services are the result of the linear trend between the values approved for 2013 and those proposed for 2016):

Monthly fee (euros/month)	2012	2013	2016
	approved	AGCom proposal	AGCom proposal
ULL	9.28	8.62 9.25	8.88 - 9.29
Subloop-unbundling	6.19	5.75 - 6.17	6.66 - 6.61
Bitstream shared	7.79	7.33	3.79 - 3.87
Bitstream naked	19.50	17.50	14.16 - 14.79

In the meantime (March 25, 2013), the Council of State, in accepting the petitions of Eutelia and Wind, published two rulings concerning WLR and naked bitstream services in the three-year period 2010-2012. The Council of State focused on AGCom s decision to anchor the network cap mechanism of the two services mentioned above to the rate determined by the retail minus mechanism in force, rather than to a starting value oriented to costs. In accepting the petitions, the Council of State ruled that AGCom had not provided adequate grounds for its decision. AGCom has yet to implement the Council of State rulings. However, the decision which will be published will not necessarily be different than the previous one (for example, the Authority may confirm the previous decision, reinforcing its economic and legal aspects).

Lastly, as regards Article 47, paragraph 2-quater of Law Decree no. 5 of February 9, 2012, converted into Law no. 35 of April 4, 2012, containing Urgent measures for simplification and development , which introduced two specific obligations under law for Telecom Italia: the unbundling of costs for accessory services of maintenance for the supply of LLU lines and the acquisition of those accessory services, also by third party companies, following the initiation of an infringement procedure by the European Commission against Italy (July 2012), the Italian government, under the European Community Law 2013, currently being approved, shall introduce a specific provision to eliminate the regulation. The provisions in question were found to have aspects of illegitimacy, relating to the reduction of the powers and autonomy of AGCom and the legal imposition of atypical obligations outside the procedures established by EU Directives. For completeness, it is noted that, within the third cycle of analysis of the retail and wholesale fixed-line access markets, the Authority stated that there are currently no significant benefits, either financial or in terms of process, that could be obtained through the potential outsourcing of such activities .

On May 30, 2013 Telecom Italia formally announced its plan for voluntary separation of the access network. This event, pursuant to art. 50-ter of the Communications Code, was notified to the Authority, which shall conduct a specific coordinated analysis of the markets to assess whether, following the operation, it will be necessary/possible to change the obligations currently in force.

On July 11, 2013, AGCom published a press release in which it announced two decisions on 2013 rates for ULL and Bitstream wholesale access. The reductions are significant: bitstream decreases from 19.50 to 15.14 euros (-22.36%); ULL decreases from 9.28 to 8.68 euros (-6.47%); and WLR decreases from 11.70 to 11.14 euros (-4.79%). These two decisions were notified to the European Commission on July 15, 2013, which has thirty days to make any comments. Therefore, the above values should not be considered definitive.

Telecom Italia believes that these decisions contain aspects that conflict with the European regulatory framework, and reserves the right to submit its observations to the European Commission, which has repeatedly pushed for an approach aimed at guaranteeing the stability of wholesale copper access prices.

If these decisions are confirmed, Telecom Italia will lodge an appeal with the competent legal forums.

In the same press release, AGCom also announced that it had launched a preparatory investigation to verify that the proposal for separation of the access network, submitted by Telecom Italia, complies with the characteristics envisaged by the BEREC to initiate a market analysis. This activity should be concluded by the end of July. Only following this investigation will the Authority establish whether the corresponding coordinated market analysis is to include the results of the analysis of the access markets described above for 2014-2016, or whether the two procedures will be kept separate.

Wholesale origination, termination and call transit

On April 28, 2011, AGCom approved Resolution 229/11/CONS requiring that, as of January 1, 2012, the price of TDM termination services on the fixed networks of Telecom Italia and other licensed operators should be set on a symmetric basis, at a rate equal to Telecom Italia s charge at the local Urban Group Stage (SGU) telephone exchange. For 2013 it established that only IP termination should be set, with a single symmetric rate for Telecom Italia and other fixed-line operators. Following a public consultation, in January 2013 the Authority notified the European Commission of the glide path of interconnection prices on the IP network for the period 2012-2015, separating the rates for the origination service from those of the termination service. However, on February 7, 2013, the European Commission sent the Authority a series of comments on the proposed provisions concerning interconnection in IP mode, expressing serious doubts and consequently opening a Phase II Investigation . As a result, the Authority withdrew its proposal in April. In the meantime, due to the delay in defining the technical specifications for interconnection on IP networks, which has slowed the migration to the IP network, the Authority launched proceedings (Resolution 12/13/CONS) to restore the price setting for TDM interconnection services for the year 2013.

Through Resolution 356/13/CONS of May 21, 2013, AGCom thus proposed a new framework for both TDM and IP interconnection. In line with the principle of technological neutrality, this framework includes the proposed application of a single rate, irrespective of the level of TDM network interconnection, for all interconnection services.

(eurocents/minute)	From July 1, 2013	From July 1, 2014	From July 1, 2015
Telecom Italia/other operators: Termination service	0.104	0.075	0.043
Telecom Italia: origination service	0.258	0.205	0.140
Telecom Italia: call transit service	0.126	0.111	0.093

Lastly, following the appeal submitted by Fastweb, on January 25, 2013 the Council of State ruled on the symmetry of termination rates between Telecom Italia and other licensed operators (reverse termination), revoking for 2012 the price symmetry at Urban Group Stage (SGU) level introduced with Resolution 229/11/CONS (see above). As a result, on March 28, 2013, the Authority published Resolution 187/13/CONS, which restores the SGT-level reverse termination rate retroactively for the year 2012. As a result, for 2012, Telecom Italia will have to recalculate the traffic terminated on networks of other licensed operators at a price of 0.361 eurocents per minute compared to the previously applied 0.272 eurocents per minute. Telecom Italia has challenged the Council of State ruling before the Court of Cassation.

Next Generation Networks

To complete the regulatory framework for access to next generation networks set forth in its Resolution 1/12/CONS of January 18, 2012, in February 2012 AGCom initiated three procedures concerning:

•

the cost model for the determination of prices for wholesale services received and supplied, and the definition of the areas of competition for the geographic differentiation of bitstream service selling prices;

•

evaluation of possible amendments to the regulation of the copper sub-loop unbundling service in the light of the possible introduction of vectoring technology on FTTCab-VDSL accesses;

•

evaluation of the imposition on all operators of obligations for symmetrical access to vertical fiber cabling and to the sections leading to buildings.

In February 2013, the first two procedures were combined with the procedure concerning the 3rd cycle of analysis of the retail and wholesale fixed-line access markets (see Resolution 238/13/CONS), while on March 28, 2013 a public consultation was launched on the symmetrical access to vertical fiber cabling and to the sections leading to buildings. The results are in the process of publication. In February 2013, the Authority approved, with amendments, the first Telecom Italia Reference Offer for rates for access services to passive infrastructures (cable ducts, inspection pits, and fiber optics), active infrastructures (bitstream NGA and VULA) and the End to End service for 2012, while on May 23, 2013, AGCom launched the public consultations to define the rates for the above services for 2013. Lastly, as part of the public consultation concerning the retail and wholesale fixed-line access markets (Resolution 238/13/CONS), the Authority proposed the rates up to 2016 for access services to passive and active infrastructures and the End to End service (for 2014 and 2015 the values of the single services are the result of the linear trend between the values approved for 2013 and those proposed for 2016). The table below shows the values relating to some of the most important NGAN services for the development of next generation networks:

Monthly fee (euros/month)	2012	2013	2016
	approved	AGCom proposal	AGCom proposal
FTTC VULA (shared line)	14.38	13.97-14.25	10.38
FTTC VULA (naked line)	21.51	20.62-21.35	16.99-17.04
FTTH VULA (100/10)	24.90	24.90	21.12
End to End	65.10	66.91	50.67
Access to vertical in-building wiring	5.96	6.08	5.98

Retail fixed markets

Ultrabroadband deals

Starting from June 20, 2013, Telecom Italia launched the retail offering for ultrabroadband services based on FTTCab (Fiber to the Cabinet) architecture in the following 22 towns: Milan, Monza, Bergamo, Brescia, Como, Varese, Venice, Verona, Vicenza, Padua, Bologna, Reggio Emilia, Genoa, Florence, Pisa, Prato, Ancona, Bari, Taranto, Palermo, Brindisi and Catanzaro, in addition to the 3 cities (Rome, Naples and Turin) already covered by the service. This means that Telecom Italia now offers a connection of 30 Megabits per second in a total of 25 towns. In Milan, 100 Megabit connections are also available thanks to FTTH (Fiber To The Home) architecture, where fiber reaches the customer s home.

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

Beginning April 1, 2013, Telecom Italia introduced further price simplifications regarding the General Offer for the Consumer. In particular, the rate amendment adopted can be described as follows:

- introduction of a single calling rate for all national voice calls (local and long distance) and fixed-to-mobile traffic;
- change in the call set-up charge;
- introduction of a 50% discount on national voice calls lasting more than three hours (calls charged in advance by the minute);
- inflation-indexing of the basic telephone line rental charge, increasing from 16.64 euros per month, VAT included, to 17.40 euros per month, VAT included.

Consumer General Offer Prices in eurocents (21% VAT included)

National calls and fixed-to-mobile calls	Prices in force until March 31, 2013		Prices as of April 1, 2013	
	Set-up charge	Per minute charge	Set-up charge	Per minute charge
National calls (local and long distance)	7.94	1.90	5.00	5.00
Fixed-to-mobile		9.90		
Calls charged in advance per minute				

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

AGCom fee

On March 5, 2013, Resolution 478/12/CONS was published relating to the annual fee for the contribution towards AGCom s operating costs for 2013, in which AGCom raised the quota payable to 0.19% of the communications sector s 2011 revenues. On April 30, 2013 Telecom Italia made a payment with reservations of approximately 20.2 million euros and challenged Resolution 478/12/CONS before the Administrative Court (TAR) of Lazio, the last step in the legal dispute concerning the contribution towards AGCom operating costs initiated in January 2011.

Universal Service

Universal service is a minimum set of services of a set quality, accessible to all customers irrespective of their geographic location and, taking account of specific national conditions, offered at an accessible price. Pending AGCom s launch of the designation mechanism, Telecom Italia is currently the only operator mandatorily required to provide the Universal Service throughout the country.

The net costs of the Universal Service obligations consist in the difference between the net cost for a company subject to Universal Service obligations and the net cost in the absence of those obligations. For the purposes of this valuation, any indirect benefits connected to the supply of the mandatory service are also considered. AGCom shall be responsible for verifying the net cost. To finance the net cost, a Fund established with the Ministry of Communications is to be used. Each time AGCom verifies that the net cost of the Universal Service has been found to be an unjust burden for Telecom Italia, it launches the cost allocation mechanism, which requires a contribution to the fund from the leading companies in the TLC sector, including Telecom Italia.

The AGCom is currently concluding its preliminary investigation to determine the net cost of the Universal Service for 2006 for Telecom Italia.

As AGCom has relaunched the process of verifying the net cost for the Universal Service obligations, it is noted that, since 2006, Telecom Italia has not recorded any receivables in the financial statements to restore the charges connected to the supply of the activities under said obligations.

Brazil

Reduction of VU-M

On April 4, 2013 Anatel published Act number 2222/2013, which sets the values of mobile interconnection traffic (VU-M) for 2013; these values show an average reduction of 11% compared to the VU-M applied in 2012.

For the coming years, the rules defined in Resolução no. 600/2012 are expected to be applied. This Resolution approved the Plano Geral de Metas de Competição (General Plan for Competition Targets)

PGMC, based on which, starting from February 24, 2014 [the VU-M] may be up to 75% of the value of the VU-M in force at December 31, 2013 and, starting from February 24, 2015, the VU-M will be up to 50% of the value of the VU-M in force as at December 31, 2013 .

Quality and the drop calls infinity case

In July 2012, as a result of the Anatel decision, which suspended the marketing and activation of new accesses by TIM (19 states), Oi (5 states) and Claro (3 states), TIM submitted its Plan for Improvement of the Quality of Mobile and Personal Services (SMP). The Plan for Improvement establishes TIM s commitments to improve the Quality of the

SMP in all states, capitals and municipalities with more than 300,000 inhabitants, for the next two years (July 2012 - July 2014), and includes: (i) network indicators; (ii) customer service indicators; (iii) service interruption indicators; and (iv) indicators of investment in the network.

In 2013, Anatel disclosed three waves (stages) of assessment of the Plans for Improvement (February, May and July), showing a gradual evolution of the results achieved, and ascertaining that, in the last assessment disclosed, TIM s results fell within the benchmark parameters in most cases, achieving improvements both in access and in calls being dropped, as well as in data connection indices.

Furthermore, in 2010 Anatel began an investigation into Infinity Plan dropped long-duration calls, which culminated in 2012 in the investigation into alleged company irregularities. In May 2013, Anatel reached the conclusion that TIM had not engaged in any fraudulent conduct in its operations. The case was closed with an administrative fine relating to the quality and call drop ratios for 2012.

RAN Sharing

The purpose of the RAN Sharing (access network sharing) project between TIM and Oi is to guarantee an efficient service in the 12 cities hosting the 2014 World Cup and, ahead of the event, to fulfill the obligations assumed following the awarding of the 4G licenses for the introduction of new LTE mobile broadband technology.

TIM believes that the Brazilian telecommunications market is mature enough to permit the sharing of infrastructures, mainly antennae, sites and transmission. In this regard, the authorities have recognized that the RAN Sharing project is an effective technological solution to deal with difficulties such as the rational use of land, visual impacts, lower energy consumption and lower electromagnetic radiation.

This innovative solution, both from the technical and regulatory viewpoints, was assessed by Anatel and the Brazilian Antitrust Authority (CADE). Having been approved by both authorities, without restriction, following an in-depth analysis, this solution is already an integral part of the roll out of the 2.5GHz 4G network.

Argentina

Administrative fines for the interruption of Telecom Argentina and Personal services

The regulatory framework that governs the supply of services by Telecom Argentina and Personal envisages the possibility of interruptions in the supply of services and also establishes exemptions from liability for possible service issues, in the event of unforeseen circumstances or force majeure. Specifically, the list of conditions of the Mobile Phone Service (approved with Decree no. 1461/93) and the general regulations of the Personal Communications Service (approved with Resolution SC no. 60/96) provide for a regime of penalties that take account of the duration of the interruption of service, with no penalties for complete interruptions of service of no more than 24 hours and for partial interruptions of service for periods of less than 7 days. The companies in the Telecom Argentina group take all necessary measures to avoid such events and ensure their prompt resolution if they occur.

However, the National Telecommunications Commission (CNC) recently launched several administrative proceedings against Telecom Argentina and Personal relating to various events that occurred on the network, including several cases triggered by unforeseen circumstances or force majeure, imposing fines of varying amounts on the companies in the Telecom Argentina group. Telecom Argentina and Personal have filed their defense petitions against these administrative sanction procedures. At today s date, the proceedings have not been concluded, and consequently both the administrative rulings and the related penalties are not yet definitive.

Resolution SC no. 1/13

Resolution SC no. 1/13, published on April 8, 2013, requires that all mobile telephony operators guarantee the supply of the service, also in emergency situations or catastrophes. In such cases, the normal supply of the service must be restored within a maximum of one hour. In any event, mobile telephony operators are required to grant priority to emergency services in the areas involved.

In addition, Resolution SC no. 1/13 requires mobile telephony operators to submit an emergency plan within 45 days to guarantee the continuity of the service under such circumstances.

As things stand, Personal has filed an appeal against Resolution SC no. 1/13, setting out the grounds for the revision of the resolution. That notwithstanding, Personal has fulfilled its commitments, submitting an Emergency Plan, drawn up together with other mobile telephony operators within the meetings with the Supervisory Authorities.

Resolution SC no. 5/13

Resolution SC no. 5/13, published on July 2, 2013, approved Regulations on the quality of telecommunications services , which, among other things, sets out new quality criteria for telecommunications services provided on public fixed-line and mobile networks, for all operators in Argentina.

Prior to its implementation, the regulation will be subject to audit and technical inspection procedures, which must be conducted by the CNC within 90 days from publication of the Resolution.

Currently, the Management of Telecom Argentina and Personal is analyzing the possible effects of the new Resolution on its operations and financial situation, as well as the measures to be taken.

Media

Digital frequencies

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

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

Following the switch-off process, which lasted four years and was concluded on July 4, 2012, the Ministry for Economic Development definitively assigned the digital frequencies.

Specifically, on June 28, 2012 the definitive assignment of user licenses for digital frequencies was ruled in favor of TIMB, to be broadcast in DBV-T digital technology for a period of twenty years. The same ruling expressly provides for the possibility of submitting a request, by May 26, 2016, for review of the limits to the user licenses pursuant to art. 14, subsections 4 to 7, and art. 14 bis of Legislative Decree 259/03.

As part of the efforts aimed at responding to the European Commission findings, in 2010, AGCom adopted Resolution 497/10/CONS providing for the allocation of licenses to additional digital dividend frequencies free of charge, in what came to be known as the beauty contest . This was subsequently canceled on April 28, 2012 through Law 44/12 and replaced with a bidding auction according to the new criteria identified by AGCom in Resolution 277/13/CONS, adopted on April 11, 2013.

Resolution 277/13/CONS on the new criteria for assignment of the digital dividend frequencies envisages the auctioning of 3 Lots :

- L1 (CH 6 VHF and 23 UHF) 89.5% population coverage;
- L2 (CH 7 and 11 VHF) 91.1% population coverage;
- L3 (CH 25 and 59 VHF) 96.6% population coverage.

The starting price of the auction indicated by AGCom is determined based on the compensation paid to local broadcasters for freeing up the 800 MHz spectrum frequencies (former channels 61-69) and amounts to approximately 30 million euros per Lot.

New entrants and existing operators with a digital network can participate in the auctions for all three Lots. Rete A can participate in the auctions for Lot L1 and Lot L3 and SKY Italia can participate only in the auction for Lot L2; they are also required to guarantee unencrypted programming for at least three years from the awarding of the tender.

TI Media is again being treated as equivalent to RAI and Mediaset, and cannot participate in the tender.

As a result of these limitations, unlike the other existing network operators, TIMB will not be able to hold 4 DVB-T networks.

The resolution also removes frequencies CH 54, 55 and 58 UHF from the tender, changing the National Frequencies Plan (PNAF), which decreases from 25 to 22 digital networks, and which AGCom has placed under consultation for revision by the end of July 2013. The new Plan reserves channels 57-60 UHF for mobile services starting from 2015. The changes to the PNAFD envisaged by July 2013 will also result in a revision of the current assignments and the resolution of the problems of interference and international coordination, including the substitution of CH 60 UHF assigned to TIMB. Channel 60 UHF has problems of international coordination with Malta and considerable problems due to interference with the adjacent frequencies used for mobile telephony (800 MHz LTE, former TV channels 61-69 UHF).

Lastly, in response to the requests from the European Commission, AGCom shall ensure compliance with the realization of the cap of 5 DVB-T multiplexes in the event of conversion, transfer or acquisition of television frequency user licenses.

Law 44/12 also requires AGCom to set administrative license fees to be applied from January 1, 2013, for the use of television frequencies by broadcasters. Currently, this regulation has not yet been drawn up.

Potential use of frequencies for mobile technology

Based on the 2011 Stability Law, the frequencies 790-862 MHz (former television channels CH 61-69 UHF), in short the 800 band , originally assigned to local TV networks, were assigned to broadband mobile communications services.

In this context, various scenarios are possible following 2015, when an advanced version of LTE will be introduced, and new frequencies can be assigned for LTE mobile telephony, possibly also including the 700 MHz band (694-790 MHz frequencies).

In view of this deadline, the Government Authorities are likely to reorganize the frequency spectrum to enable the development of mobile broadband services, with the consequent reduction in resources available for digital terrestrial television (see art. 3, paragraph 1 letter b) of Resolution no. 243/1012/EU of the European Parliament and Council of March 14, which sets out a long-term program for radio spectrum policy, as well as resolution 232 (COM5/10/WRC12). Up to 96 MHz (channels 49-60 UHF), currently used by national television broadcasters, could be freed up for mobile broadband.

It is also noted that the relevant authorities are also examining solutions to ensure the implementation of strategies set at supranational level, with progressive scenarios subsequent to 2015 (for example, 2020), which contemplate the following:

- in dealing with the convergence of services and technologies, the European Commission has adopted a more flexible approach to managing the radio spectrum, based on the principle of the neutrality of technology and services; as a result, the radio spectrum, which in the past was used by a single service, may be shared by various applications, balancing the underlying public interests;

- the user licenses assigned to broadcasters have a term of twenty years, with the resulting need to establish alternative solutions for broadcasters to reduce or offset the effects of the described reorganization of the spectrum (i.e.: refarming of underused frequencies or, as an extreme measure, compensation for damages);

- a verification is under way of the compatibility of television and radio services for the 700 MHz band, which could be part of the next global conference on radio communications to be held in 2015.

Corporate Boards at June 30, 2013

Board of Directors

The shareholders meeting held on April 12, 2011 appointed the new Board of Directors of the Company, composed of 15 directors, with a three-year term of office (until the approval of the financial statements for the year ended December 31, 2013). On April 13, 2011, the Board of Directors then appointed Franco Bernabè as Executive Chairman (Chairman of the Board and Chief Executive Officer), Aldo Minucci as Deputy Chairman and Marco

Patuano as Managing Director and Chief Operating Officer.

Subsequently, on May 15, 2012, the shareholders meeting confirmed the appointment to the end of the three-year term of office of the directors Lucia Calvosa and Massimo Egidi, who were co-opted to replace, respectively, the resigning directors Ferdinando Falco Beccalli and Francesco Profumo.

At June 30, 2013, the Board of Directors was composed of the following members:

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

The board committees were composed as follows at June 30, 2013:

- Executive Committee - Executive Chairman, Deputy Chairman, Managing Director and Chief Operating Officer, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli;

- Control and Risk Committee - Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Lucia Calvosa, Mauro Sentinelli and Luigi Zingales;

- Nomination and Remuneration Committee - Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Gabriele Galateri di Genola and Massimo Egidi.

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Piazza degli Affari 2.

The curriculum vitae of each member of the Board of Directors can be viewed online at the website www.telecomitalia.com.

Board of Statutory Auditors

The ordinary shareholders meeting held on May 15, 2012 appointed the Board of Statutory Auditors of the Company which will remain in office until the approval of the financial statements for the year 2014. At the shareholders meeting of April 17, 2013, Roberto Capone was appointed acting auditor, after substituting for Sabrina Bruno who had resigned, and Fabrizio Riccardo Di Giusto was appointed alternate auditor. Their terms of office were aligned to those of the other members of the Board of Statutory Auditors.

The Board of Statutory Auditors was composed as follows at June 30, 2013:

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

The curriculum vitae of each member of the Board of Statutory Auditors can be viewed online at the website www.telecomitalia.com.

Independent Auditors

The shareholders meeting held on April 29, 2010 appointed the audit firm of PricewaterhouseCoopers S.p.A. to audit the Telecom Italia financial statements for the nine-year period 2010-2018.

Manager responsible for preparing the Company s financial reports

Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) is the manager responsible for preparing Telecom Italia s financial reports.

Macro-Organization Chart at June 30, 2013

Since July 2, 2013, the management of the investments in Sofora Telecomunicaciones, Nortel Inversora, Telecom Argentina, TIM Brasil and TIM Participaçoes has been conducted by Telecom Italia International that refers to the Group Chief Financial Officer.

On July 9, 2013, the Project Management Office Equivalence of Input was renamed PMO Progetto Societarizzazione.

Information for Investors

Telecom Italia S.p.A. share capital at June 30, 2013

Share capital	10,693,740,302.30 euros
Number of ordinary shares (par value 0.55 euros each)	13,417,043,525
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%
Market capitalization (based on June 2013 average prices)	10,036 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders at June 30, 2013 according to the Shareholders Book, supplemented by communications received and other available sources of information (ordinary shares):

The shareholders of Telco (Generali Group: 30.58%; Mediobanca S.p.A.: 11.62%; Intesa Sanpaolo S.p.A.: 11.62%; Telefónica S.A.: 46.18%) signed a Shareholders Agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122. The description of the basic contents of the agreement is contained in the Report on the Corporate Governance and Share Ownership Structure, posted on the website: www.telecomitalia.com.

Major Holdings in Share Capital

At June 30, 2013, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 of February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are:

Holder	Type of ownership	Percentage of ownership
Telco S.p.A.	Direct	22.39%
Findim Group S.A.	Direct	4.99%

Common Representatives

- The special meeting of the savings shareholders held on May 22, 2013 elected Dario Trevisan as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2015).

- By decree of March 7, 2011, the Milan Court appointed Enrico Cotta Ramusino as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at Variable Rates, Open Special Series, Reserved for Subscription by Employees of the Telecom Italia Group, in service or retired, with a mandate for the three-year period 2011-2013.

- By decree of October 18, 2012, the Milan Court confirmed Francesco Pensato as the common representative of the bondholders for the Telecom Italia S.p.A. euros 1,250,000,000 5.375 per cent. Notes due 2019, with a mandate for the three-year period 2012-2014.

Performance of the Stocks of the Major Companies in the Telecom Italia Group

Relative performance from January 1, 2013 to June 30, 2013

Telecom Italia S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx TLC Indexes

Chart based on Telecom Italia ord. share price of EUR 0.6977 at January 2, 2013   Stock market prices. Source: Reuters

Telecom Italia Media S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx Media Indexes

Chart based on Telecom Italia Media ord. share price of EUR 0.1557 at January 2, 2013 Stock market prices. Source: Reuters.

Tim Participações S.A. vs. BOVESPA Index
(in Brazilian reais)

Chart based on Tim Participações ord. share price BRL 7.7626 at January 2, 2013 Stock market prices. Source: Reuters.

Telecom Argentina S.A. (Class B ordinary shares) vs. MERVAL Index (in Argentine pesos)

Chart based on Telecom Argentina Class B price ARS 16.40 at January 2, 2013 Stock market prices. Source: Reuters.

Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares, Telecom Argentina S.A. Class B ordinary shares and Nortel Inversora S.A. Class B preferred shares are listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 Telecom Italia S.p.A. ordinary shares and 10 savings shares, 5 Tim Participações S.A. ordinary shares, 5 Telecom Argentina S.A. Class B ordinary shares and 0.05 Nortel Inversora S.A. Class B preferred shares.

Rating at June 30, 2013

At June 30, 2013, the three major rating agencies Standard & Poor s, Moody s and Fitch Ratings rated Telecom Italia as follows:

	Rating	Outlook
STANDARD & POOR S	BBB -	Stable
MOODY S	Baa3	Negative
FITCH RATINGS	BBB	Negative

Waiver of the obligation to publish disclosure documents for extraordinary operations

On January 17, 2013 the Board of Directors of Telecom Italia S.p.A. resolved to exercise the option, as per article 70 (8) and article 71 (1 bis) of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

Related Party Transactions

In accordance with art. 5, paragraph 8 of Consob Regulation 17221/2010 concerning related party transactions and the subsequent Consob Resolution 17389/2010, it is noted that no significant transactions were entered into in the first half of 2013 as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group for the first half of 2013.

Furthermore, there were no changes or developments regarding the related party transactions described in the 2012 report on operations which had a significant effect on the financial position or on the results of the Telecom Italia Group in the first half of 2013.

Transactions with related parties, when not dictated by specific laws, were conducted at arm s length. The transactions were subject to an internal procedure (available for consultation on the Company s website at the following address: www.telecomitalia.com, section Governance channel governance system) which establishes procedures and time scales for verification and monitoring.

The information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Note Related party transactions in the Half-year condensed consolidated financial statements at June 30, 2013 of the Telecom Italia Group.

Alternative Performance Measures

In this Half-year Financial Report at June 30, 2013 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

The non-IFRS alternative performance measures used are described below:

•

EBITDA: this financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level), in addition to **EBIT**. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT- Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA- Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

•

Organic change in Revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level). The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the figures used to arrive at the organic change are provided in this Half-Year Report as well as an analysis of the major non-organic components for the first six months of 2013 and 2012.

•

Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Interim Management Report includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.

In order to better represent the actual change in net financial debt, starting with the Half-Year Financial Report at June 30, 2009, in addition to the usual measure (renamed Net financial debt carrying amount) a new measure has also been introduced called Adjusted net financial debt which excludes effects that are purely accounting in nature, resulting from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	Gross financial debt
+	Non-current financial assets
+	Current financial assets
+	Financial assets included in Discontinued operations/Non-current assets held for sale
B)	Financial assets
C=(A - B)	Net financial debt carrying amount
D)	Reversal of fair value measurement of derivatives and related financial assets/liabilities
E=(C + D)	Adjusted net financial debt

Footnotes

(1)

1The average exchange rates used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), equaled 2.66695 in the first half of 2013 and 2.41520 in the first half of 2012. For the Argentine pesos, the exchange rates used equaled 6.72696 in the first half of 2013 and 5.69209 in first half of 2012. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.

Sustainability section

Environment

Energy

The work done to reduce energy consumption within Telecom Italia, through specific optimisation initiatives, is equivalent to approximately 150 GWh per year in terms of lower consumption and energy not drawn from the grid. This should be viewed in the context of the inertial increase of the amount of electrical energy drawn resulting from the actual and conceivable development in telephone traffic and services offered.

Work continued on the development of more efficient independent energy generation systems for the Company's own consumption at the generation site. A further boost was also given to the use of renewable energy sources and to targeted experimentation and testing activities.

Energy saving initiatives

Some of the initiatives implemented are aimed at improving energy efficiency through technological modernisation and optimisation of:

- TLC platforms and servers installed in Data Centres, particularly through the concentration and virtualisation of machines;
- air conditioning systems, particularly by taking action to optimise average operating temperatures and the physical premises, where possible using Full Free Cooling and other low energy systems with a reduced environmental impact;
- switching and transmission systems;
- alternating current to direct current (AC/DC) conversion systems.

With regard to the mostly multiannual initiatives already launched, during the six-month period:

•

an accurate programme was drawn up for energy audits of the group's 100 most energy-intensive buildings, in order to allow 24 efficiency measures to be taken during the year, identifying them according to energy use priorities. In the context of these measures, a set of actions were planned based on an analysis of the data gathered via the network of sensors installed at the main sites;

•

in the common areas, traditional (neon and dichroic) lamps were replaced by around 70,000 low energy LED lamps. The plan launched in 2011 has so far allowed 270,000 lamps to be replaced and the activities are expected to have been completed by the end of 2013, by when 300,000 lamps will have been replaced in total. The expected electricity saved will be more than 9 GWh/year for every 100,000 lamps replaced. Further environmental and other benefits are also expected to be achieved as a result of the longer life of the LED lamps, with a consequent reduction in maintenance activities and in the number of spent fluorescent lamps to be disposed of annually. A first batch of around 15,000 ceiling lights in office premises is also scheduled for replacement by the end of the year. The lighting systems will be fitted with presence detectors and variable lighting controls to adjust the amount of light depending on external lighting;

•

work continued to implement the plan to power public telephone booths remotely from telephone exchanges, providing for lighting by means of low energy LED lamps and the use of proximity sensors. Once the system is fully operational, the total energy saved, will be approximately 10 GWh/year;

•

under the annual programme to modernise technology and streamline systems serving exchanges and Radio Base Stations 1,164 actions were carried out on power stations, 2,134 on battery sets and 569 on air conditioning systems.

Activities aimed at developing alternative energy sources and boosting renewable ones

The following projects were carried out to increase the Company's own energy generation capacity, prioritising efficiency over traditional systems:

•

transformation of 5 cogeneration plants (Asti, Verona, Salerno, Lanciano, Treviso) into trigeneration plants, in order to provide a better response to local electricity, cooling and heating requirements. Completed in June 2013, these plants generate around 5.5 GWh/year;

•

construction and installation of 9 new cogeneration plants, including 2 plug&play (240 KWe) plants and 7 traditional plants (500 KWe). These plants will be tested and able to generate around 70 GWh/year as of 2014;

•

alignment with the best performance parameters of existing cogeneration plants, by increasing the hours of operation (around 8,000 hours/year);

•

installation of photovoltaic panels at 100 sites identified among the Company's own fixed network plants, with an expected energy saving of around 0.8 GWh/year;

•

construction of a solar cooling system in a medium-sized fixed network site for the production of chilled water for air conditioning by absorption of solar thermal energy. This project will result in an estimated annual saving of 0.25 GWh.

Experimentation and testing activity

•

The second phase of the qualification tests for Lithium Polymer batteries was launched. These batteries have virtually no environmental impact (zero emissions and 100% recyclable materials) and the testing is aimed in particular at verifying the operation and performance of a system consisting of two parallel 48 V/70 Ah batteries.

•

Tests continued on renewable energy supply systems, based on the use of photovoltaic panels, with the testing of prototypes installed on the test shelter at the Via Borgaro site in Turin. A system developed by the University of Rome 3 is currently being tested which confirms and improves the already good results of previous solutions in terms of efficiency and functionality. The testing showed how the photovoltaic generation system is particularly sensitive to panel maintenance (a layer of dust or dirt on the surface is in fact enough to reduce energy generation considerably) and strongly influenced by installation site (partial shade impacts heavily on instant generation).

Sustainable mobility initiatives

A project was launched in Florence to improve home-office commuting and promote environmental sustainability in the city, with the aim of extending this initiative to other Company facilities across the country. Employee car parks have been created at the Telecom Italia site on Viale Guidoni for cars/motorbikes/electric bicycles, with twelve recharging stations.

This project was the result of a monitoring programme involving the distribution of internal questionnaires aimed at identifying habits, requirements and expectations of commuters. The resulting data confirmed the willingness of employees to adopt electrically operated vehicles in an environment conducive to eco-mobility.

Human Resources

Headcount and changes

Telecom Italia Group

Headcount as of June 30, 2013 is as follows:

(units)	6/30/2013	12/31/2012	Changes
Italy	53,610	54,380	(770)
Abroad	28,539	28,761	(222)
Total personnel on payroll	82,149	83,141	(992)
Agency contract workers	14	43	(29)
Total personnel	82,163	83,184	(1,021)
Non-current assets held for sale	-	-	-
Total	82,163	83,184	(1,021)

Excluding agency contract workers, the Group's headcount has decreased by 992 people compared to December 31, 2012.

The changes can be itemised as follows:

- the departure of the company LA7 Srl (428 people) from the scope of consolidation;
- net turnover down by 564 people, as detailed below by individual Business Unit:

(units)	Recruited (*)	Departed (*)	Net change
Domestic	350	577	(227)
Brazil	2,145	2,273	(128)
Argentina	350	438	(88)
Olivetti, Media and Others	12	133	(121)
Turnover	2,857	3,421	(564)

(*)

The table also includes transfers within the Group.

People Caring

During the first six months of 2013, Telecom Italia continued to implement specific initiatives relating to the following areas:

- balance between working life and free time and support for the requirements of employees and their families;
-

support for volunteering initiatives by employees;

•

promoting diversity in the workplace.

Balance between working life and free time and support for the requirements of employees and their families

•

17 Nurseries: in addition to the 10 nurseries (in 8 cities), 7 discount agreements were signed with an equal number of external nurseries at the Turin, Rome and Padua offices.

•

Company loans: 228 disbursed for various requirements, 91 for home purchases and renovations and 94 granted to new parents with children up to three years of age.

•

Time saving:

–

handling of official formalities: 39 points at Company offices in 12 cities;

–

laundry/shoe repairs: operational in 5 offices in Milan and Rome;

–

newsagents: available in 3 offices in Rome;

–

wellness areas: two areas in Company offices (Padua and Rome) and a wellness area in Naples;

–

discount agreements: 43 online offers of products and services have been launched as a result of Telecom Italia s partnership agreements, mostly within Italy (cars and motorbikes, culture and shows, electronic goods, sports goods, financial institutions, health and wellbeing, trips and holidays, miscellaneous).

•

Stays for employees'children:

–

traditional 15-day summer camps for children between the ages of 6 and 12 run by 12 centres (4,489 registered participants);

_

themed 14-day stays for children between the ages of 11 and 17, in Italy, at 17 centres (2,311 registered participants) and abroad (UK, Ireland and United States) at 7 colleges (563 registered participants);

_

scholarships abroad: 20 scholarships were granted to young people between the ages of 15 and 17 for one-year stays abroad (Europe, Argentina, Brazil, USA, Costa Rica, Honduras, Canada, China, Hong Kong, India, Japan) and 100 for four-week stays (in Ireland, Spain, Finland, Latvia, China and Japan).

•

Initiatives regarding sport, art, culture, entertainment and historical events: working with several different Company departments, over 2,500 tickets and invitations to VIP areas allocated since the beginning of 2013. A highly appreciated initiative was "Bimbi in campo", which allowed the children of employees to accompany players of the TIM Serie A soccer teams onto the field at a number of different matches during the 2012/2013 championship.

•

Mobility management: in order to assist colleagues with commuting between home and work, an "Intranet Mobility" has been created in some of the major cities to answer questions from colleagues and provide an opportunity to share cars (car pooling). The initiative has been launched in Genoa, Milan, Florence and Rome and includes a total of 165 crews. 15 Company offices have been provided with a shuttle service, making 315 journeys a day and 32 offices have been equipped with bicycle racks.

•

Counselling service: in order to help employees deal with difficulties of a professional and personal nature, a People Caring Centre telephone counselling service is provided by professional psychologists across the country. Either by telephone or email, 258 colleagues asked for information regarding the operation of the service and 143 made an appointment. 128 of these began a course of counselling sessions and 44 company-related matters were taken over by the Human Resources & Organization area.

The following campaigns have been conducted in Brazil:

•

Favourable terms for opening bank accounts, discount agreements and health insurance.

•

Happy day : employees are entitled to take a day off on their birthday or, if on maternity leave, to full pay for the relevant day. Employees are also granted additional paid days in case of marriage (5 days in total) and further paid days to new fathers for the birth or adoption of a child (10 days in total).

•

"TIM open day": this is an annual initiative aimed at introducing the children of employees to the environments where their parents work.

- A future without boundaries : this programme helps the children of employees to choose their career through seminars and meetings with a number of employees in order to understand how the work is done.

- "Children's food kit": all employees with children between the ages of 6 months and 2 years can request a kit provided free of charge by the Company that includes a number of specific foods. If prescribed by a doctor, the kit can also be requested for children under 6 months of age.

- "Accident and sickness insurance": employees are guaranteed supplementary insurance cover to maintain their normal standard of remuneration in the event of a prolonged illness or accident at work.

Support for volunteering initiatives by employees

- "*Navigare Insieme* (Browsing Together)": activities run in computer training centres in 16 Italian cities to help people over 60 to use the Internet. Colleagues support volunteers from the partner associations involved in the project.

- Volunteering at the Dynamo Camp: in the summer of 2013, 30 colleagues will be volunteering for two sessions at the Dynamo Camp facility, where children and young people with serious or chronic health conditions can spend time playing and having fun in contact with nature.

- Child sponsorship: working with CIAI, the Sant'Egidio Foundation and Save the Children, over 941 children have continued to be supported by employees under a child sponsorship scheme.

- Fair trade shopping: a group has been set up with the Equologica cooperative in the Rome office at Via Pietro de Francisci (the initiative will be extended to other offices).

- Telecom Blood Donors Group: 37 blood donation days were organised in 5 cities.

In Argentina, the programme involving employees in voluntary activities (*Red de Voluntarios*) continued. 1,349 volunteers have so far taken part in 142 projects in 12 cities and in 4 different areas of activity:

- one-off activities lasting 1 or 2 days;

- fund-raising initiatives within the Company;

- initiatives in which volunteers join in with programmes run by non-profit organisations;

- initiatives run by non-profit organisations and presented by employees, which the Company decides to support with financial contributions and the involvement of volunteers, monitoring their progress.

Promoting diversity in the workplace

The activities of the Diversity Committee continued, focusing in particular on age, gender diversity and disability. Blogs regarding the promotion of diversity remain active, allowing discussions and the exchange of documents.

In the context of gender diversity, 15 "Role Model" meetings were set up between female managers and successful women in the fields of art, culture, business and politics. The purpose of the initiative, which involved 1,058 female employees, was to promote greater awareness of the role currently played by women in the world of work.

A corporate video on diversity was created to promote the culture of difference and inclusion in the Company, through training and information activities and dissemination on the intranet. A training event on ageing and disability took place that involved 220 employees from the Telecom Italia Group.

The Comunico-IO project continued with the aim of promoting communication between the hearing impaired and other colleagues, improving their ability to operate fully independently using state-of-the-art technological tools. The 57 employees involved in the project were supplied with a mobile phone and a high definition web cam, which interact with a computer running the internal chat and Internet access services. Recently a new mobile phone has been supplied and a "Comunico-IO" app for Android is currently being delivered which support communication for people with hearing loss.

In Argentina, specific discussions were held on issues related to the Diversity Programme , including 2 training courses on disability for HR managers and 2 meetings on gender issues ("Women s Break"). A number of company representatives also took part in events and working groups on gender-related issues organised by the IAE Business School - Universidad Austral.

Progress achieved by the Programme was monitored by means of specific meetings with various different sections of the Human Resources Department.

Selection and Development

Recruitment

Telecom Italia attends the main Italian Career Days, parti