Item 3. KEY INFORMATION

3.1 RISK FACTORS

In addition to the other information contained in this Annual Report, investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones we face. Additional risks not known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

RISKS RELATED TO THE TELECOM ITALIA GROUP

Our business will be adversely affected if we are unable to successfully implement our strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.

On February 8, 2013, we presented our updated 2013–2015 business and strategic plan (the "**2013-2015 Plan**"). The 2013-2015 Plan sets out our primary strategic objective as well as a number of strategic priorities to achieve this objective over the next three years:

- continued deleveraging to reduce our net financial debt, through:
  - focus on strategic markets—Italy, Brazil and Argentina—with the goal of stabilizing consolidated revenues through the contribution from Latin America;
  - technological developments in fixed-line telephony and mobile telephony in Italy, mobile telephony in Brazil and network capacity in Argentina to take advantage of growing demand for data;
  - extension and acceleration of our cost reduction policy in order to contribute to the financing of the above mentioned technological developments;
  - sustainable shareholder remuneration. We announced our intention to revise our dividend policy in order to bring it into line with the continuing policy of deleveraging the Group.

Our ability to implement and achieve these strategic objective and priorities may be influenced by certain factors, including factors outside of our control, such as:

- regulatory decisions and changes in the regulatory environment in Italy, Brazil and Argentina or in the other countries in which we operate;
- increasing number of competitors in our principal markets which could cause us to lose further market share;
- increasing and stronger market competition in our principal markets with a consequent decline in the prices of services;
- increasing competition from global and local OTT (Over The Top) players (operators offering content and services on the internet without owning its own proprietary telecommunications network infrastructure);
- the success of "disruptive" new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- the continuing effects of the weak global economy, in particular continuing weak gross domestic product (GDP) growth in Italy and in the other markets in which we operate, including the effects on our customers and their ability to purchase or continue to purchase our services;
- the effect of exchange rate fluctuations, particularly in Brazil and Argentina, on our operating revenues, margins and financial management;
- our ability to strengthen our competitive position in Italy and in international markets, particularly in Brazil and Argentina;
- our ability to develop and introduce new technologies which are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- our ability to manage and reduce costs;
- our ability to refinance existing indebtedness when due in the capital and bank markets which remain volatile and subject to disruption;

- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

As a result of these uncertainties there can be no assurance that the business and strategic objectives identified by our management can effectively be attained in the manner and within the time-frames described. Furthermore, if we are unable to attain our strategic priorities, our goodwill may be further impaired which could result in further significant write-offs.

The global economic crisis and the continuing weakness of the Italian economy over the past several years has adversely affected our business and continuing global economic weakness and volatility in the Eurozone could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.

Since the modest recovery in GDP in Italy in 2010 and 2011 following sharp declines that were triggered by the global financial crisis, GDP declined in 2012, with a negative growth of -2.4%. The continuing weakness of the Italian economy is attributable in part to fiscal tightening (a mix of spending cuts and tax increases), aimed at reinforcing the multi-year budget deficit reduction plan and balancing the structural deficit by 2013; this process is expected to continue under the "Fiscal Compact" rules[1]. This fiscal policy should result in structural adjustments and sustainability in the long term, but it has contributed to the weakness in domestic demand experienced by the Italian market during 2012, which is expected to continue for the coming years.

Weakness in the Italian economy, our core market and, in particular, low or negative GDP growth and increasing levels of unemployment, has had and, if such economic weakness persists, may continue to have a direct negative impact on the spending patterns of customers, both in terms of the products and services they subscribe for and the extent to which they use such products and services. During periods of deteriorating economic conditions and high unemployment, retail customers generally have less discretionary income with which to purchase products and services. Our consumer segments are most directly impacted by a reduction in discretionary income, and as a result of continued economic weakness in Italy, it may be more difficult for us to attract new customers, or retain existing customers, and our revenues and Average Revenue Per User ("**ARPU**"), particularly in consumer segments, may continue to decline.

Additionally, our business and corporate customers are also affected by general economic conditions and consumer spending, and therefore an extended recession, or public perception of declining economic conditions, is and could continue to substantially decrease telecommunications and IT expenditures among our business and corporate customers, which would in turn adversely affect our revenues in our business and corporate segments. In addition to the economic weakness, the competitive environment is expected to continue to place downward pressure in telecommunications service prices leading to a negative impact on our domestic revenues.

The continuing global economic weakness could also adversely affect our businesses in our principal international markets of Brazil and Argentina which may also have a negative impact on our operating results and financial condition.

If we fail to successfully implement our plans to improve efficiency and optimize expenditures, our results of operations and financial condition could be adversely affected.

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[1] The Fiscal Compact is an intergovernmental treaty introduced as a new and stricter version of the previous Stability and Growth Pact. The treaty entered into force on January 1, 2013 for those Member States of the European Union which had completed ratification prior to this date. Under the Fiscal Compact, ratifying Member States are required to have enacted laws requiring their national budgets to be in balance or in surplus within the treaty's definition within one year after the Fiscal Compact enters into force for them. The laws must also provide for a self-correcting mechanism to prevent their breach. The treaty defines a balanced budget as a general budget deficit less than 3.0 per cent. of the GDP, and a structural deficit of less than 1.0 per cent. of GDP if the debt level is below 60 per cent.—or else it shall be below 0.5 per cent. of GDP.

Our leverage is such that deterioration in cash flow can change the expectations of our ability to repay our debt and the inability to reduce our debt could have a material adverse effect on our business. Continuing volatility in the international credit markets may limit our ability to refinance our financial debt.

Our consolidated gross financial debt was 40,181 million euros at December 31, 2012 compared with 41,951 million euros at December 31, 2011. Our consolidated net financial debt was 29,053 million euros at December 31, 2012 compared with 30,819 million euros at December 31, 2011. Our high leverage has been a factor in our strategic decisions for a number of years and the reduction of our leverage remains a key strategic objective. As a result, however, we are reliant on cost cutting and free cash flow to finance critical technology improvements and upgrades to our network.

Due to the competitive environment and continuing weak economic conditions, there could be deterioration in our income statement and statement of financial position measures used by investors and rating agencies in determining our credit quality. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody’s, S&P and Fitch, which base their ratings on our ability to repay our debt.

Although rating downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine interest expense, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs.

Factors which are beyond our control such as deterioration in performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions at the sovereign level as a result of the continuing effects of the economic and financial crisis could have a significant effect on our ability to reduce our debt, or our ability to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of our strategy, the failure to reduce debt could be viewed negatively and adversely affect our credit ratings.

The management and further development of our business will require us to make significant further capital and other investments. If we are unable to finance our capital investment as described above, we may therefore need to incur additional debt in order to finance such investment. Our future results of operations may be influenced by our ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside our control. In addition, if such transactions increase our leverage it could adversely affect our credit ratings.

We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties and are the subject of a number of investigations by judicial authorities. The ultimate outcome of such proceedings is generally uncertain. If any of these matters are resolved against us, they could, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition and cash flows in any particular period.

We are subject to numerous risks relating to legal, tax, competition and regulatory proceedings in which it is currently a party or which could develop in the future. We are also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, tax, competition and regulatory proceedings and investigations in which we are, or may become, involved (or settlements thereof) may, individually or in the aggregate, have a material adverse effect on our results of operations and/or financial condition and cash flows in any particular period. Furthermore, our involvement in such proceedings and investigations may adversely affect our reputation.

Operational risks could adversely affect our reputation and our profitability.

We face numerous operational risks inherent in our business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly, loss or disclosure of critical or commercially sensitive data or personally identifiable information or systems failures. These events can result in direct or indirect losses and adverse legal and regulatory proceedings, and harm our reputation and operational effectiveness.

We have in place risk management practices designed to detect, manage and monitor at a senior level the evolution of these operational risks. However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that we face and such failures could have a material adverse effect on our results of operations and could harm our reputation.

Risks associated with Telecom Italia's ownership chain.

Telco S.p.A. ("**Telco**")—a company in which interests are held by the Generali group ("**Generali**") (30.58 per cent.), Intesa Sanpaolo S.p.A. ("**Intesa Sanpaolo**") (11.62 per cent.), Mediobanca S.p.A. ("**Mediobanca**") (11.62 per cent.), and Telefónica S.A. ("**Telefónica**") (46.18 per cent.)—is Telecom Italia's largest shareholder, holding an interest of approximately 22.38 per cent. of the voting rights.

On February 29, 2012, Telefónica, Intesa Sanpaolo, Mediobanca, and Generali entered into a renewal agreement (the "**2012 Shareholders Agreement"**) in which they agreed to enter into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original shareholders' agreement dated as of April 28, 2007, as subsequently amended and supplemented. Please see "Item 7 Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.1 Shareholders' Agreements".

The 2012 Shareholders Agreement sets out the criteria for drawing up the list of candidates for the appointment of the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco's share capital, will be entitled to designate two candidates; and
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the list, of which three candidates would be appointed unanimously and the others on a proportional basis.

Based on the foregoing, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors. In the shareholders' meeting held on April 12, 2011, 12 out of 15 Board members were elected from a list proposed by Telco, while the remaining three Directors were elected from a list proposed by a group of asset management companies and international institutional investors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia's other ordinary shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco.

In addition, Telefónica is the largest shareholder of Telco. Presently, Telefónica and its associated companies (the "**Telefónica Group**") and the Telecom Italia Group are direct competitors outside of their respective domestic markets, including Brazil and Argentina; nevertheless, the 2012 Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group will be managed autonomously and independently. The 2012 Shareholders Agreement provides, among other things, that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at Board of Directors' meetings which discuss matters relating to companies of the Telecom Italia Group in countries where the Telefónica Group and the Telecom Italia Group compete. Specific additional matters have been agreed with respect to the Telecom Italia Group's operations in Brazil and Argentina. The presence of Telefónica in Telco could, however, result in legal or regulatory proceedings or affect regulatory decisions in countries where the Telecom Italia Group may wish to operate if the Telefónica Group is also an operator or competitor in such jurisdictions. For further information, please see "Item 7 Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.1 Shareholders' Agreements" and "Item 10. Additional Information—10.1 Corporate Governance". See also "Note—Contingent liabilities, other information, commitments and guarantees" of the Notes to the Consolidated Financial Statements included elsewhere herein.

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

The Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia.

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's bylaws pursuant to compulsory legal provisions.

On March 26, 2009, the European Court of Justice (the "**ECJ**") declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the ECJ's ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury's special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on May 20, 2010, the Italian Government amended the criteria under which it may exercise such special powers although the ruling by the ECJ did not have any immediate or direct impact on Telecom Italia's bylaws.

In May 2012 regulations relating to the special powers on share ownership in the sectors of defense and national security, and regarding activities of strategic importance in the energy, transport and communication sectors were published and became effective. The regulations provide that, at the moment the Prime Ministerial implementing decrees come into force with respect to "*the networks and systems, goods and relationships of strategic importance for the communications* […] *sector*", the clauses in the Company's bylaws on special powers will cease to have effect and will be replaced by these regulations. In brief, the new regulations will provide:

· the Italian Government with the authority to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser's home jurisdiction;

· a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company's bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to Telecom Italia (whether by merger or otherwise) more difficult to achieve, if at all, or discourage certain bidders from making an offer relating to a change of control that could otherwise be beneficial to shareholders.

For further information, please see "Item 7 Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.3 Continuing Relationship with the Italian Treasury".

System failures could result in reduced user traffic and reduced revenue and could harm our reputation.

Our success largely depends on the continued and uninterrupted performance of our information technology, network systems and of certain hardware and datacenters that we manage for our clients. Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could negatively affect our levels of customer satisfaction and harm our reputation.

Our business depends on the upgrading of our existing networks.

We must continue to maintain, improve and upgrade our existing networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets. A reliable and high quality network is necessary to manage churn by sustaining our customer base, to maintain strong customer brands and reputation and to satisfy regulatory requirements, including minimum service requirements. The maintenance and improvement of our existing networks depends on our ability to:

- upgrade the functionality of our networks to offer increasingly customized services to our customers;
- increase coverage in some of our markets;
- expand and maintain customer service, network management and administrative systems;
- expand the capacity of our existing fixed copper and mobile networks to cope with increased bandwidth usage; and
- upgrade older systems and networks to adapt them to new technologies.

In addition, due to rapid changes in the telecommunications industry, our network investments may prove to be inadequate or may be superseded by new technological changes. Our network investments may also be limited by market uptake and customer acceptance. If we fail to make adequate capital expenditures or investments, or to properly and efficiently allocate such expenditures or investments, the performance of our networks, both in real terms and in relative terms as compared to our competitors, could suffer, resulting in lower customer satisfaction, diminution of brand strength and increased churn.

Many of these tasks are not entirely under our control and may be affected by applicable regulation. If we fail to maintain, improve or upgrade our networks, our services and products may be less attractive to new customers and we may lose existing customers to competitors, which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

The value of our operations and investments may be adversely affected by political and economic developments in Italy or other countries. Continuing global economic weakness could reduce purchases of our products and services and adversely affect our results of operations, cash flows and financial condition.

Our business is dependent to a large degree on general economic conditions in Italy and in our other principal markets, Brazil and Argentina, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect our business and results of operations. The weak economic conditions of the last several years have had an adverse impact on our business, particularly in Italy.

The economic recession that the Italian market has been experiencing in recent years have weighed, and may continue to weigh heavily, on the development prospects of our domestic market.

Continuing uncertainty about global economic conditions poses a significant risk as consumers and businesses postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or the timing of purchases of our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

We may also be adversely affected by political developments in Italy and in the countries where we have made significant investments. Certain of these countries have political and legal systems that are less predictable than in Western Europe.

Political or economic upheaval or changes in laws or in their application in the countries outside Italy where we have significant investments may harm the operations of the companies in which we have invested and impair the value of these investments.

In particular, in recent years the Argentine Government has taken several actions to re-nationalize concessions and public service companies that were privatized in the 1990's, such as Aguas Argentinas S.A. and Aerolineas Argentinas S.A. Additionally, in May 2012, Law No. 26,741, established the expropriation of the 51% of the capital stock of YPF S.A. and the 51% of the capital stock of YPF GAS S.A., which were directly or indirectly owned by Repsol YPF S.A. ("**Repsol**"). To date, the Argentine Government has not compensated any of the expropriated investors. These actions had a negative effect on the market. We cannot provide any assurance that similar actions of the Argentine Government will not be extended to other private companies or other sectors in the near future.

In the past, the Argentine Government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Between the end of 2001 and 2002, the Argentine Government implemented a unified exchange market (Mercado Único y Libre de Cambios—"**MULC**") with significant regulations and restrictions for the purchase and transfer of foreign currency.

Since late 2011 the Argentine Government implemented a series of measures aimed to increase controls on the foreign trade and capital flows. To that effect, certain measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the Administración Federal de Ingresos Públicos (Argentine Federal Tax Authority—"**AFIP**") for any purchase of foreign currency made by private companies and individuals for saving purposes. In addition, the Banco Central de la Republica Argentina ("**BCRA**") expanded the controls and measures to make payments abroad accessing the local foreign exchange market, regarding trade payables and financial debt, and also established demanding procedures that must be met to pay certain trade payables with related parties. Although there are no regulations that prohibit making dividend payment to foreign shareholders, in practice authorities have substantially limited any purchase of foreign currency to pay dividends since these exchange controls were implemented. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors, dividend payments to foreign shareholders, which would limit our ability to comply in a timely manner with payments related to our liabilities to foreign creditors or non-resident shareholders.

Pursuing the same objective, in October 2011 Decree No. 1,722 eliminated an exception for oil, gas and mining companies, and thus requires these companies to liquidate all their export receipts in the local foreign exchange market. Moreover, in October 2011 the National Insurance Bureau issued Resolution No. 36,162 imposing the obligation for insurance companies to repatriate all investments and liquid assets allocated outside Argentina. We cannot ensure that similar measures will not be implemented for other private companies or other sectors in the future.

In addition, starting in February 2012, all import operations of goods and services must be filed and approved in advance by AFIP. Such procedure could negatively affect the provision of imported products and services within our Argentinean supply chain.

Since we operate in a heavily regulated industry, regulatory decisions and changes in the regulatory environment could materially adversely affect our business.

Our fixed and mobile telecommunications operations, as well as our broadband services and television broadcasting businesses, are subject to regulatory requirements in Italy and our international operations are subject to regulation in their host countries. In Italy, we are the only operator subject to universal service obligations, which requires us to provide fixed line public voice telecommunications services in non-profitable areas. As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The last review of the EU common regulatory framework was approved at the end of 2009 and has been transposed in Italy in 2012.

In compliance with the regulatory framework the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sectors ("**AGCom**") has to identify operators with "significant market power" ("**SMP**") based on market analyses in relevant retail and wholesale markets, identified in an EC Recommendation. The framework established criteria and procedures for identifying remedies applicable to operators with SMP in various markets. An operator designated by a national authority as having SMP will be subject to a set of obligations necessary to safeguard competition. AGCom’s regulatory approach is mainly focused on the regulation of our wholesale business, while the regulation of retail markets is being gradually withdrawn.

Regulatory uncertainty and regulatory changes imposed on us can have an adverse effect on our revenues as well as making it difficult to make important decisions on investments. In September 2012 AGCom launched the third round of market analysis which should have set wholesale access fees for LLU, WLR and Bitstream services on the copper and fiber-based networks for the 2013-2015 period. However, AGCom decided to set the fees for the above mentioned copper-based access services only for the year 2013 while postponing the decision regarding the fees for the 2014-2016 period. This approach has created uncertainty because the 2013 fees have been fixed without a market analysis and for the following 2014-2016 period only the range of the final year (2016) access charges has been submitted for public consultation.

In addition the Council of State (*Consiglio di Stato)* published two judgments on both fixed and mobile termination rates: the first judgment upheld the complaint filed by Fastweb (one of Telecom Italia’s main competitors in the fixed line market) and revoked the symmetry of 2012 Time Division Multiplexing (“TDM”) fixed termination tariffs among operators; the second one upheld the complaint filed by H3G (the fourth mobile operator in Italy) and revoked the decrease on termination fees on the H3G network in the period November 2008-June 2009. As a result, Telecom Italia’s costs for fixed and/or mobile termination services could be expected to increase.

The regulatory framework of the Next Generation Access Network (“NGAN”) is not yet completely defined. Proceedings to establish NGAN regulation with a view to introducing: 1) a cost model for the pricing of passive and active wholesale services and the definition of the so-called “NGAN competitive areas” where the price of fiber-based bitstream and virtual access services are not subject to the cost orientation obligation; 2) the perspective enforcement of symmetric obligations on all operators, for the access to fiber vertical wiring and to building connection segments; and 3) potential amendments to the regulation of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fiber to the Cabinet -Very High-Speed Digital Subscriber Line (“FTTCab-VDSL”) accesses. As Next Generation Access will require significant investments, the regulatory approach regarding the obligations which could be imposed on us could have an adverse effect on our cash flows and financial condition potentially hampering future investments.

On April 4, 2012, the Italian Parliament approved a law mandating AGCom to impose on us the obligation to separately offer our ancillary services (activation and maintenance) for the LLU lines so that they might be provided also by third parties. However, in July 2012, the EU Commission formally opened an infringement procedure against Italy, in relation to the possible breach of the EU regulatory framework stating the principle of independence and autonomy of national authorities by the above mentioned law. From a technical point of view granting the possibility for third parties to manage the maintenance of the incumbent’s network may cause serious negative effects on the quality of the service, on the security and integrity of the network as well as on the efficient deployment of the infrastructure to the detriment of end-users. In February 2013 the EU Commission issued a reasoned opinion concluding that the Italian Government has infringed the European legislation. As a consequence, the Italian Government was required to change the law within two months and therefore the law aimed at the transposition in the Italian framework of the EU rules (“Legge Comunitaria 2013”), preliminarily discussed in March 2013, includes a specific provision aimed at withdrawing the obligation for AGCom to impose on Telecom Italia the disaggregated offer of its LLU ancillary services. The formal approval of this law by the Italian Parliament will end the infringement procedure by the European Commission.

Our Brazilian and Argentinean Business Units are subject to extensive regulation in their respective countries. Our international operations, therefore, confront similar regulatory issues as we face in Italy, including the possibility for regulators to impose obligations and conditions on how we operate our businesses in these countries as well as taking decisions that can have an adverse effect on our results, including setting, and in particular, reducing the rates we can charge or, as is the case in Argentina, freezing, since 2002, the rates we can charge for basic fixed line telephony services. As a result, the decisions of regulators or the implementation of new regulations in Brazil and Argentina, and the costs of our compliance with any such decisions or new regulations, may limit our flexibility in responding to market conditions, competition and changes in our cost base which could individually or in the aggregate, have a material adverse effect on our business and results of operations.

For example, in 2012 the Argentine Government cancelled the auction for the 850 MHz and 1900 MHz spectrum bands that were returned by Telefónica Móviles Argentina S.A. These spectrum bands were returned due to the spectrum cap restrictions of 50 MHz.

In December 2012 the Argentine President announced the launching of a new state owned mobile company branded “libre.ar”. The government’s dual-role, as both regulator and competitor, opens several risks to our Argentine mobile business including possible adverse changes in the regulatory framework and the current market rules. The lack of allocation of additional frequency bands is negatively affecting the quality of service of all the Argentinean mobile operators. It could also adversely affect our mobile competitive position and may require higher capital expenditures to continue providing high quality mobile services to our customers.

In Brazil we operate under authorizations granted by the Brazilian Government. As a result, we are obliged to maintain minimum quality and service standards. Our failure to comply with all the requirements imposed by Anatel and by the Brazilian Government may result in the imposition of fines or other government actions, including the suspension of the service commercialization for a given period.

Due to the continuous evolution of the regulatory regime affecting various parts of our business in Italy and in our international operations, we are unable to clearly predict the impact of any proposed or potential changes in the regulatory environment in which we operate both in Italy and internationally. Regulations in the telecommunications industry are constantly changing to adapt to new competition and technology. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which it is subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of our authorizations, or those of third parties, could adversely affect our future operations in Italy and in other countries where it operates.

There is also a general risk related to the possible imposition of fines by the competent authorities for violations of regulations to which we are subject.

For further information regarding the matters discussed above and other aspects of the regulatory environments in which Telecom Italia Group’s businesses operates, see “Item 4.3. Regulation”.

We operate under authorizations granted by government authorities.

Many of our activities require authorizations from governmental authorities. These authorizations specify the types of services the operating company holding such authorization may provide. The continued existence and terms of our authorizations are subject to review by regulatory authorities and to interpretation, modification or termination by these authorities. Although authorization renewal is not usually guaranteed, most authorizations do address the renewal process and terms that, however, may be affected by political and regulatory factors.

Many of these authorizations are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing authorizations typically require us to satisfy certain obligations, including minimum specified quality, service and coverage conditions. Failure to comply with these obligations could result in the imposition of fines or even in the revocation or forfeiture of the authorization. In addition, the need to meet scheduled deadlines may require us to expend more resources than otherwise budgeted for a particular network build-out.

Additional authorizations may also need to be obtained if we expand our services into new product areas, and such authorizations may be related to auctions (such as the assignment or the right of use of spectrum) or otherwise prove expensive or require significant cash outlays, or have certain terms and conditions, such as requirements related to coverage and pricing, with which we may not have previously had to comply. If we are unable to obtain such authorizations within the expected timeframe, at a commercially acceptable cost, or at all, or if the authorizations includes onerous conditions, it could have a material adverse effect on our business, financial condition and results of operations.

The Pesification and freezing of rates may continue to adversely affect Telecom Argentina's revenues.

In accordance with the Argentine Public Emergency Law, in January 2002, rates for Basic telephone services and long distance services were converted to Argentine pesos and fixed at an exchange rate of P$1.00=US$1.00 (the "Pesification"). The rates that Telecom Argentina may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine Government.

In March 2006, Telecom Argentina executed a Letter of Understanding (the "**2006 Letter of Understanding**") with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework.

The 2006 Letter of Understanding contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps, which as of the date of this Annual Report have yet to occur. Although Telecom Argentina expects such fulfillment to occur, we cannot guarantee if or when this will happen. We are unable to predict the outcome of the negotiations with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, Telecom Argentina is unable to predict whether the Argentine Government will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether Telecom Argentina will be able to satisfy them.

In addition, in early 2013 the Argentine Government adopted certain initiatives in order to reduce current inflation rates, including price agreements with certain non-regulated sectors such as supermarkets and retailers. In this context and considering the increasing demands of service quality improvements that all Argentine mobile operators are facing, our mobile subsidiary Personal decided not to implement the rate increases announced in the fourth quarter of 2012 (to be effective as from March 2013) for postpaid and "cuentas claras" customers. Although mobile telephony is a non-rate regulated industry, we cannot predict whether current or new factors—including governmental initiatives in order to reduce inflation rates—would negatively impact Personal's ability to apply rate increases, thus negatively affecting the profit margins and the level of requested funds for capital expenditures to maintain or increase the quality of the service.

Rate restrictions for regulated services of Telecom Argentina may continue for a number of years and may continue affecting revenues from fixed line and other services. In a high—inflation environment this may continue to significantly affect Telecom Argentina's financial results.

Strong competition in Italy or other countries may reduce our core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on our results of operations and financial condition.

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. Competition has been intense since the liberalization of the Italian telecommunications market in 1998 and there is now entrenched competition from international operators' who have been present in the Italian market for some time and direct competition with our fixed-line and mobile telephony businesses and for broadband services.

As of the date of this Annual Report, there are a number of significant competitors offering fixed-line and broadband services and three operators (in addition to us) offering mobile services in the Italian domestic market. In addition, some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which "originated" from fixed line operators.

Moreover, convergence enables lateral competition from IT, Media and Devices/Consumer Electronic players. This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere. We face competition from international competitors who have entered local markets to compete with existing operators as well as from local operators, each of which has increased the direct competition we face in our Italian domestic fixed-line, mobile telephony and broadband businesses.

Competition in our principal lines of business has led, and could lead, to:

· price and margin erosion for our products and services;

· a loss of market share in our core markets;

· loss of existing or prospective customers and greater difficulty in retaining existing customers;

· obsolescence of existing technologies and more rapid deployment of new technologies;

· an increase in costs and payback period related to investments in new technologies that are necessary to retain customers and market share; and

· difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flow.

Although we have taken a number of steps to realize additional efficiencies and to rebalance revenue mix through the continuing introduction of innovative and value added services, if any or all of the events described above should occur, the impact of such factors could have a material adverse effect on our results of operations and financial condition.

In addition to competitive pressures, as a result of the increasing substitution of data services in place of traditional voice and SMS communications, our traditional voice and SMS markets also have been decreasing and are expected to continue to decrease due to increasing competition from alternative modes of telecommunications.

We face increasing competition from non-traditional data services on new voice and messaging over the internet technologies, in particular over-the-top (OTT) applications, such as Skype, Google Talk, FaceTime and WhatsApp. These applications are often free of charge, other than for data usage, accessible via smartphones, tablets and computers and allow their users to have access to potentially unlimited messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as short message service (SMS) which have historically been a source of significant revenues for fixed and mobile network operators such as us. With the growing share of smartphones, tablets and computers in Italy as well as our international markets of Brazil and Argentina, an increasing number of customers are using OTT applications services in substitution for traditional voice or SMS communications.

Historically, we have generated a substantial portion of our revenues from voice and SMS services, particularly in our mobile business in Italy, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on our revenues and profitability. As a result of these and other factors, we face a mobile market in which price pressure has been increasing.

All mobile network operators, including ourselves, are currently competing with OTT application providers who leverage on existing infrastructures and who generally do not operate capital-intensive business models associated with traditional mobile network operators like us. OTT application service providers have recently become more sophisticated competitors, and technological developments have led to a significant improvement in the quality of service, in particular speech quality, delivered via data communications applications such as OTT. In addition, players with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT application services. In the long term, if non-traditional mobile voice and data services or similar services continue to increase in popularity, as they are expected to do, and if we and other mobile network operators are not able to address this competition, this could contribute to further declines in ARPU and lower margins across many of our products and services, thereby having a material adverse effect on our business, results of operations, financial condition and prospects.

Our business and our revenues may be negatively affected if we are unable to continue the introduction of new services, stimulating increased usage of our fixed and wireless networks.

The maturity of telecommunications markets (particularly in our core Italian market) and the rapidly changing competitive landscape (for example, the rise of global platform/networks of organizations (an “ecosystem”) delivering a specific product or service through both competition and cooperation) have resulted in a continuous erosion in traditional service revenues for telecommunications operators.

In this context, our strategy has led to integration of our core offering portfolio with new services outside traditional telecommunications domains (eg. Cloud Services, Digital Media, M2M services), which are able to generate new revenue streams and at the same time stimulate increased usage of our fixed and wireless networks. A deep knowledge of customers' needs and preferences, the ability to respond rapidly to their changes and a thorough understanding of the specialized needs of certain industries are particularly important for exploiting such opportunities.

Failing to exploit these business opportunities and to identify an appropriate role in the relative ecosystems may have a material adverse effect on our revenue streams.

Continuing rapid changes in technologies could increase competition, reduce usage of traditional services or require us to make substantial additional investments.

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. Our markets are characterized by rapid and significant changes in technology, customer demand and behavior, and, as a result feature a constantly changing competitive environment. In addition, as the convergence of services accelerates, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may prove to be commercially unsuccessful. Moreover, we may not receive the necessary authorizations to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavorable regulation regarding the usage of these technologies. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

As a result, if we are unable to effectively anticipate, react to or access technological changes in our telecommunications markets we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base or to maintain revenues from such customer base, all of which could have a material adverse effect on our business, financial condition and results of operations.

The mobile communications markets have matured and competition has increased.

Although mobile communications markets have reached maturity levels in our domestic market in the voice services segment, the mobile broadband business continues to grow. However such change has had an adverse effect on revenues from our mobile services.

The evolution of the mobile telecommunications markets in which we operate will depend on a number of factors, many of which are outside our control. These factors include:

- the activities of our competitors;
- competitive pressures and regulations applicable to retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telecommunications products and services and their attractiveness to our customers; and
- the success of new disruptive or substitute technologies.

In addition, as our core domestic Italian market has become increasingly saturated there is a growing focus on customer retention. Such focus could result in increased expenses to retain customer loyalty or, if we are unable to satisfactorily offer better value to our customers, our market share and revenues could decline. The main mobile competitors in Italy, including us, suffered higher levels of churn in 2012 than we had experienced in recent years. Such a high level of churn is indicative of the intense competition in this market. Furthermore, during the first months of 2013 we have experienced a significant deterioration in the Italian mobile market, with a strong increase in the level of competition and nearly unprecedented price pressure in comparison with prior periods; a continuation of such price pressure could have an adverse effect on our current and future revenues and results of operations.

If the mobile telecommunications markets in which we operate perform worse than expected, or if we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed. In particular, our goodwill may be further impaired which could result in further significant write-offs.

We may be adversely affected if we fail to successfully implement our Internet and broadband strategy.

The continuing development of Internet and broadband services is an important part of our strategic objectives and means to increase the use of our networks in Italy and abroad. Our strategy includes the development of broadband and value added services in order to offset the decline of traditional voice services. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy continues to grow more slowly than anticipated, for reasons such as changes in Internet users' preferences or lower than expected penetration rate growth for PCs, tablets, smartphones and other Internet connected devices;
- broadband penetration does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors (telcos, OTT players or players from adjacent markets), consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

Our business may be adversely affected if we fail to successfully implement our Information and Communications Technology (ICT) strategy.

We intend to continue focusing on IT-TLC convergence by addressing the ICT market, offering network and infrastructure management, as well as application management.

Moreover as the use of cloud IT services matures and their adoption grows, we may take advantage of the new cloud opportunities especially in the Business customer segment providing a full range of services (from "core" Infrastructure to Software as a Service through partners' ecosystem) integrated with a wide range of connectivity options and end-to-end SLAs. We expect to experience increasing competition in this market as additional competitors (mainly Telco operators through acquisition and partnership with IT operators) also enter this market.

There is no assurance that the services offered will be successful; as a result our revenues could be negatively affected.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

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

In the past, we have made substantial international investments, primarily in U.S. dollars, and have significantly expanded our operations outside of the Euro zone, particularly in Latin America.

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular the Brazilian Real and Argentine Peso) may adversely affect our consolidated results. In particular, with respect to Argentina, we currently utilize for all purposes the official exchange rate of the Argentine Peso because it is the exchange rate that Telecom Argentina accesses for making payment to foreign creditors and for collections from foreign operators. The increasing restrictions in the exchange rates market increased the gap between the official Peso exchange rate and the implicit exchange rate, reached through the valuation of securities trading in the local market in pesos and the same ones trading in an external market in another currency. Given the economic and political conditions in Argentina, we cannot predict whether, and to what extent, the value of the peso may depreciate against the U.S. dollar, the Euro or other foreign currencies, in such a form that it will capture partially or totally the current gap between the official exchange rate and the implicit exchange rate. A rise in the value of the Euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

In addition, we have raised, and may raise in an increasing proportion in the future, financing in currencies other than the Euro, principally the U.S. dollar and British pound. In accordance with our risk management policies, we generally hedge the foreign currency risk exposure related to non-Euro denominated liabilities, through cross-currency and interest rate swaps.

Furthermore, we enter into derivative transactions hedging our interest rate exposure to change interest rates in order to manage the volatility of our income statement, while remaining within predefined target levels. However, no assurance can be given that fluctuations in interest rates will not adversely affect our results of operations or cash flows.

Furthermore, an increase of sovereign spreads, and of the default risk it reflects, in the countries where we operate, may affect the value of our assets in such countries.

3.2 EXCHANGE RATES

We publish our consolidated financial statements in euros. References to "€", "euro" and "Euro" are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to "U.S. dollars", "dollars", "U.S.$" or "$" are to U.S. dollars, the currency of the United States of America.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the "Euro/Dollar Exchange Rate") of €1.00= U.S.$ 1.3186, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the "**Noon Buying Rate**") on December 31, 2012.

These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

For the purpose of this Annual Report, "billion" means a thousand million.

The following table sets forth for the years 2008 to 2012 and for the beginning of 2013 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per €1.00.

Calendar Period	High	Low	Average(1)	At Period end
2008	1.6010	1.2446	1.4725	1.3919
2009	1.5100	1.2547	1.3936	1.4332
2010	1.4536	1.1959	1.3262	1.3269
2011	1.4875	1.2926	1.3931	1.2973
2012	1.3463	1.2062	1.2859	1.3186
2013 (through April 5, 2013)	1.3692	1.2782	1.3173	1.3027

Monthly Rates	High	Low	Average(1)	At Period end
October 2012	1.3133	1.2876	1.2974	1.2958
November 2012	1.3010	1.2715	1.2837	1.3010
December 2012	1.3260	1.2930	1.3119	1.3186
January 2013	1.3584	1.3047	1.3304	1.3584
February 2013	1.3692	1.3054	1.3347	1.3079
March 2013	1.3098	1.2782	1.2953	1.2816
April 2013 (through April 5, 2013)	1.3027	1.2836	1.2884	1.3027

(1) Average of the rates for each month in the relevant period.

The Ordinary Shares and Savings Shares of Telecom Italia trade on *Mercato Telematico Azionario* ("**Telematico**"), managed by Borsa Italiana S.p.A. ("**Borsa Italiana**") in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares ("**Ordinary Share ADSs**") and the Savings Share American Depositary Shares ("**Savings Share ADSs**"), on the New York Stock Exchange ("**NYSE**"). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See "Item 10. Additional Information—10.5 Description of American Depositary Receipts".

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2012, 2011, 2010, 2009 and 2008, which have been extracted or derived, with the exception of amounts presented in U.S. dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited, with respect to 2012, 2011 and 2010, by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young S.p.A., as part of the normal required rotation of auditors. 2009 and 2008 were audited by the independent auditor Reconta Ernst & Young S.p.A.

In 2012, the Group applied the accounting policies on a basis consistent with those of the previous years, except for:

· the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (Employee Benefits), whose effects are described in “Note—Accounting Policies” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. The early adoption of such amendments resulted in the restatement of the 2011 and 2010 separate consolidated income statements and consolidated statements of comprehensive income;

· the new standards and interpretations adopted by the Group since January 1, 2012 (IAS 12 (Income Taxes) and IFRS 7 (Disclosures—Transfers of Financial Assets)), that did not have any effect on the consolidated financial statements at December 31, 2012.

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report.

	Year ended December 31						
	2012(*)	2012(*)	2011(*) (Restated)	2010(*) (Restated)	2010	2009	2008
	(millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	(millions of euros, except percentages, ratios, employees and per share amounts)					
Separate Consolidated Income Statement Data:							
Revenues	**38,903**	**29,503**	**29,957**	**27,571**	**27,571**	**26,894**	**28,746**
Operating profit (loss)	**2,540**	**1,926**	**(680)**	**5,858**	**5,818**	**5,493**	**5,437**
Profit (loss) before tax from continuing operations	**(58)**	**(44)**	**(2,743)**	**4,128**	**4,132**	**3,339**	**2,894**
Profit (loss) from continuing operations	**(1,686)**	**(1,279)**	**(4,353)**	**3,579**	**3,582**	**2,218**	**2,217**
Profit (loss) from Discontinued operations/Non-current assets held for sale	3	2	(13)	(7)	(7)	(622)	(39)
Profit (loss) for the year	**(1,684)**	**(1,277)**	**(4,366)**	**3,572**	**3,575**	**1,596**	**2,178**
Profit (loss) for the year attributable to owners of the Parent(2)	*(2,145)*	*(1,627)*	*(4,811)*	*3,118*	*3,121*	*1,581*	*2,177*
Capital Expenditures	**6,851**	**5,196**	**6,095**	**4,583**	**4,583**	**4,543**	**5,040**
Financial Ratios:							
Operating profit (loss)/Revenues (ROS)(%)	6.5%	6.5%	—	21.2%	21.1%	20.4%	18.9%
Ratio of earnings to fixed charges(3)	0.98	0.98	(0.29)	2.84	2.84	2.51	2.21
Employees, average salaried workforce in the Group, including personnel with temporary work contracts:							
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non current assets held for sale) (average number)	78,564	78,564	78,369	70,150	70,150	69,964	73,508
Employees relating to the consolidated companies considered as Discontinued operations/Non current assets held for sale (average number)	—	—	—	—	—	2,168	3,277
Basic and Diluted earnings per Share (EPS)(4):							
Ordinary Share	**(0.11)**	**(0.08)**	**(0.25)**	**0.16**	**0.16**	**0.08**	**0.11**
Savings Share	**(0.11)**	**(0.08)**	**(0.25)**	**0.17**	**0.17**	**0.09**	**0.12**
Of which:							
From continuing operations:							
Ordinary Share	*(0.11)*	*(0.08)*	*(0.25)*	*0.16*	*0.16*	*0.11*	*0.11*
Savings Share	*(0.11)*	*(0.08)*	*(0.25)*	*0.17*	*0.17*	*0.12*	*0.12*
From Discontinued operations/Non-current assets held for sale:							
Ordinary Share	—	—	—	—	—	*(0.03)*	—
Savings Share	—	—	—	—	—	*(0.03)*	—
Dividends:							
per Ordinary Share(5)	0.026	0.020	0.043	0.058	0.058	0.050	0.050
per Saving Share(5)	0.041	0.031	0.054	0.069	0.069	0.061	0.061

	As of December 31,					
	2012	2012	2011	2010	2009	2008
	(millions of U.S. dollars, except employees)(1)	(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total assets	**102,264**	**77,555**	**83,886**	**89,040**	**86,267**	**86,223**
Equity:						
Equity attributable to owners of the Parent	25,552	19,378	22,790	28,819	25,952	25,598
Non-controlling interests	4,792	3,634	3,904	3,736	1,168	730
Total Equity	**30,344**	**23,012**	**26,694**	**32,555**	**27,120**	**26,328**
Total Liabilities	**71,920**	**54,543**	**57,192**	**56,485**	**59,147**	**59,895**
Total equity and liabilities	**102,264**	**77,555**	**83,886**	**89,040**	**86,267**	**86,223**
Share capital(6)	**13,982**	**10,604**	**10,604**	**10,600**	**10,585**	**10,591**
Net financial debt(7)	**38,309**	**29,053**	**30,819**	**32,087**	**34,747**	**34,039**
Employees, number in the Group at year-end, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	83,184	83,184	84,154	84,200	71,384	75,320
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	—	—	—	—	2,205	2,505

	As of December 31,				
	2012	2011	2010	2009	2008
	(thousands)				
Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	21,153	21,712	22,122	22,256	22,289
Of which physical accesses (retail)	*13,978*	*14,652*	*15,351*	*16,097*	*17,352*
Broadband accesses	8,967	9,089	9,058	8,741	8,134
Of which retail broadband accesses	*7,020*	*7,125*	*7,175*	*7,000*	*6,754*
Mobile lines	32,159	32,227	31,018	30,856	34,797
Brazil Business Unit					
Mobile lines	70,362	64,070	51,015	41,102	36,402
Argentina Business Unit					
Fixed-line network connections	4,128	4,141	4,107	4,060	4,010
Broadband accesses	1,629	1,550	1,380	1,214	1,032
Mobile lines	21,276	20,342	18,212	16,281	14,390

(*) Starting from 2012, the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits); therefore, the comparative figures for 2011 and 2010 have been restated on a consistent basis. The adoption of IAS 19 does not have any effect on the Group's statement of financial position other than certain reclassifications under "Equity." Further details and the effects on the years ended December 31, 2011 and 2010 are provided in the "Note—Accounting Policies" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. 2009 and 2008 data has not been restated for the adoption of IAS 19 as the company considered the impact immaterial.

(1) For the convenience of the reader, Euro amounts for 2012 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2012, of €1.00 =1.3186 U.S.$.

(2) For the purposes of IFRS, "Parent", as used in this Annual Report, means Telecom Italia S.p.A.

(3) Due to the loss in 2012 and in 2011, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 38 million euros in 2012 and 2,704 million euros in 2011 to achieve a coverage of 1:1. For purposes of calculating the ratio of "earnings to fixed charges":

· "Earnings" is calculated by adding:

– profit (loss) before tax from continuing operations;

– "fixed charges" (as defined below);

– amortization of capitalized interest and debt issue discounts or premiums;

– dividends from associates and joint ventures accounted for using the equity method; and

– share of losses of associates and joint ventures accounted for using the equity method and then subtracting:

– capitalized interest for the applicable period; and

– share of earnings of associates and joint ventures accounted for using the equity method.

· "Fixed charges" is calculated by adding:

– interest expenses (both expensed and capitalized);

– issue costs and any original debt issue discounts or premiums; and

– an estimate of the interest within rental expense for operating leases.

(4) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group's profit (loss) available to shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

– Ordinary Shares was 13,277,621,082 for the year ended December 31, 2012, was 13,264,375,078 for the year ended December 31, 2011, 13,239,883,276 for the year ended December 31, 2010, 13,220,792,908 for the year ended December 31, 2009 and 13,246,643,947 for the year ended December 31, 2008;

– Savings Shares was 6,026,120,661 for the years ended December 31, 2012, 2011, 2010, 2009 and 2008.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group's profit (loss) is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(5) Subject to approval, at the Annual Shareholders' Meeting to be held on April 17, 2013, Telecom Italia's dividend coupons for the year ended December 31, 2012, will be clipped on April 22, 2013, and will be payable from April 25, 2013.

(6) Share capital represents share capital issued net of the par value of treasury shares.

(7) Net Financial Debt is a "Non-GAAP Financial Measure" as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see "Item 5. Operating and Financial Review and Prospects—5.2 Results of Operations for the Three Years Ended December 31, 2012—5.2.3 Non-GAAP Financial Measures".

(8) Physical accesses include Broadband accesses.

3.4 DIVIDENDS

The determination of our future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to our earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time. As part of our 2013-2015 Plan, we announced our intention to reduce our annual dividend beginning in 2012 in order to bring it into line with our strategic priority of continuing to deleverage and reduce our net financial debt. See "Item 4—Information on the Telecom Italia Group—4.1.7 Updated Strategy".

The following table sets forth the dividends per Ordinary Share and per Savings Share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividends paid in such years. Actual dividends paid are rounded to the nearest whole cent.

	Dividends on Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	Euros per Share	U.S. Dollars per Share(1)	(millions of euros)	Euros per Share	U.S. Dollars per Share(1)	(millions of euros)
2008	0.0500	0.0652	667.16	0.0610	0.0796	367.59
2009	0.0500	0.0619	667.16	0.0610	0.0755	367.59
2010	0.0580	0.0846	775.48	0.0690	0.1006	415.80
2011	0.0430	0.0563	575.30	0.0540	0.0707	325.41
2012(2)	0.0200	0.0261	267.59	0.0310	0.0404	186.81

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. For the year ended December 31, 2012, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 5, 2013.

(2) Subject to approval at the Annual Shareholders' Meeting to be held on April 17, 2013. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders' Annual Meeting approving the dividends. Telecom Italia's dividend coupons for the year ended December 31, 2012, will be clipped on April 22, 2013, and will be payable from April 25, 2013.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders' meeting, which must be held within 180 days after the end of the financial year to which it relates (pursuant to article 18, second paragraph, of the Company's Bylaws). In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of "interim dividends". Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the profit of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company's issued share capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the Telecom Italia Group. The Company may also pay dividends out of available retained earnings from prior years or other reserves.

Dividends in respect of Ordinary Shares and Savings Shares held with Monte Titoli S.p.A. ("**Monte Titoli**") are automatically credited to the accounts of the beneficial owners with the relevant participant of Monte Titoli, without the need for presentation by such beneficial owners of any documentation. See "Item 10. Additional Information—10.4 Description of Capital Stock".

Arrangements between Euroclear or Clearstream and Monte Titoli permit the shareholders to collect the dividends through Euroclear or Clearstream. Holders of American Depositary Receipts ("**ADRs**") are entitled to receive payments in respect of dividends on the underlying Ordinary Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement.

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Dividends payable on the Company’s Ordinary Shares and Savings Shares may be subject to deduction of Italian withholding tax. See “Item 10. Additional Information—10.6 Taxation”. Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See “Item 10. Additional Information—10.2 Exchange Controls and Other Limitations Affecting Security Holders”.

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Ordinary Shares or Savings Shares. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives. In the case of Ordinary Share ADSs and Savings Share ADSs owned by non-residents in Italy, Telecom Italia understands that the provision of information concerning the Depositary, in its capacity as holder of record of the Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements.

The Depositary, in accordance with instructions from Telecom Italia, will provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law. To the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax treaty, claims for such benefits must be accompanied by the required information. See “Item 10. Additional Information—10.6 Taxation”.