TELECOM ITALIA S P A
Form 20-F/A
October 12, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 20-F/A

## (Amendment No. 1)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
**OR**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended: December 31, 2009**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from N/A to N/A**

**OR**

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**Date of event requiring this shell company report**

**Commission file number 1-13882**

# Telecom Italia S.p.A.

**(Exact name of Registrant as specified in its charter)**

**Italy**

**(Jurisdiction of incorporation or organization)**

**Piazza degli Affari 2, 20123 Milan, Italy**

**(Address of principal executive offices)**

**Andrea MANGONI**

**Chief Financial Officer**

**Telecom Italia S.p.A.**

**Piazza degli Affari 2, 20123 Milan, Italy**

**+39.02.85.95.1**

**andrea.mangoni@telecomitalia.it**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| American Depositary Shares, each representing 10 Ordinary Shares of 0.55 euros par value each (the **Ordinary Share ADSs** ) | The New York Stock Exchange |
| Ordinary Shares of 0.55 euros par value each (the **Ordinary Shares** ) | The New York Stock Exchange* |
| American Depositary Shares, each representing 10 Savings Shares of 0.55 euros par value each (the **Savings Share ADSs** ) | The New York Stock Exchange |
| Savings Shares of 0.55 euros par value each (the **Savings Shares** ) | The New York Stock Exchange* |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**(Title of Class)**

**Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock**

**as of the close of the period covered by the annual report.**

Ordinary Shares 13,218,690,552

Savings Shares 6,026,120,661

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares or Savings Shares, as the case may be, pursuant to the requirements of the Securities and Exchange Commission.

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**Explanatory note**

The Company is filing this amendment to its annual report on Form 20-F for the year ended December 31, 2009 (filed with the Securities and Exchange Commission (the SEC ) on May 21, 2010 (the original filing )) to include a revised audit opinion of the Company s auditors, Reconta Ernst & Young S.p.A. The revised audit opinion has been amended to cover each of the statements of financial position referenced in the first paragraph of their audit opinion. No other changes have been made to the original filing. Please see the revised audit opinion on page F-2 of this amended Form 20-F.

In addition, the Company has attached hereto the exhibits required as a result of this amendment. Except for the revised audit opinion and the exhibit filings, the Company has not made any modifications or updates to the original filing on Form 20-F and all of the other information contained in the original filing remains unchanged. This amendment does not describe other information, events or developments that have occurred since the original filing, and does not modify or update those disclosures affected by any subsequent events. This amendment should be read in conjunction with the Company s filings made with the SEC subsequent to the original filing, as information in such reports and documents may update or supersede certain information contained in this amendment.

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## INTRODUCTION

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term Company means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we , us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS** ). The designation **IFRS** also includes all effective International Accounting Standards ( **IAS** ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( **IFRIC** ), comprising those previously issued by the Standing Interpretations Committee ( **SIC** ). Telecom Italia adopted IFRS for the first time in its annual Consolidated Financial Statements for the year ended December 31, 2005. See Item 3. Key Information 3.3 Selected Financial and Statistical Information .

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2009 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

***Restatement of Financial Statements***

In this Annual Report, we are restating our consolidated financial statements for the years ended December 31, 2008 and 2007, as well as certain financial statement line items for the years ended December 31, 2005 and 2006 included in the selected financial and statistical information section contained elsewhere in this Annual Report.

The restatement of prior years financial statements relate to accounting adjustments made primarily to correct errors as defined in IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) ( **IAS 8** ) which occurred in the financial years 2005, 2006 and 2007. The determination to restate our prior year financial statements was made when further information became available on February 23, 2010 to the Company in relation to the ongoing criminal investigation involving our subsidiary Telecom Italia Sparkle ( **Telecom Italia Sparkle case** ), along with data acquired as part of an investigation conducted by an independent legal advisor and accounting firm retained to conduct such investigation. Based on this information, we concluded that certain transactions that occurred only during financial years 2005, 2006 and 2007 were without substance resulting in errors as defined under IAS 8. These errors have been corrected, restating the comparative 2008 and 2007 financial statements presented in this Annual Report.

As a result of the restatement of the financial statements relating to the financial years 2005, 2006, 2007 and 2008 our independent registered accounting firm has withdrawn, in accordance with the audit principles applicable in the United States (PCAOB rules), their audit opinions included in Forms 20-F for the corresponding years. Our independent registered accounting firm has issued an unqualified audit opinion on the Telecom Italia consolidated financial statements for the three years ended December 31, 2009, included in this Annual Report, which includes the restated financial statements for 2008 and 2007.

Unless otherwise indicated, all financial data included in this Annual Report gives effect to these restatements. For further details, please see Item 5 *Operating and Financial Review and Prospects 5.1 Restatement due to errors* and Notes *Restatement as a result of errors and changes in accounting policies* and *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.** The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements.

Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, should, seeks or anticipates or similar expressions or the negative thereof or othe terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in

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competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified particularly in our core Italian market, including regulatory measures regarding pricing and access for other local operators.

Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11 Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside our control, that could significantly affect expected results.

The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements:

- our ability to successfully implement our strategy over the 2010-2012 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed line and wireless markets;
- the impact of the global recession in the principal markets in which we operate;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing and international mobile roaming;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and BroadBand strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;

- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;

- our services are technology-intensive and the development of new technologies could render such services non-competitive;

- the impact of political developments in Italy and other countries in which we operate;

- the impact of fluctuations in currency exchange and interest rates;

- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;

- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil);

- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and

- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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## KEY DEFINITIONS

The following terms appearing in this Annual Report have the meanings set forth below.

| | |
|---|---|
| **EU** | means the European Union. |
| **IASB** | means the International Accounting Standards Board. |
| **IFRS** | means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards ( **IAS** ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( **IFRIC** ), comprising those previously issued by the Standing Interpretations Committee ( **SIC** ). |
| **Merger** | means the merger of Old Telecom Italia into Olivetti, which became effective on August 4, 2003. |
| **Old Telecom Italia and Old Telecom Italia Group** | means Telecom Italia as well as Telecom Italia and its consolidated subsidiaries, respectively, as they existed immediately prior to the effective date of the Merger. |
| **Olivetti** | unless otherwise indicated, means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia. |
| **Olivetti Group** | unless otherwise indicated, means Olivetti and its consolidated subsidiaries, including Old Telecom Italia. |
| **Ordinary Shares** | means the Ordinary Shares, 0.55 euros par value each, of Telecom Italia. |
| **Parent** | means Telecom Italia S.p.A.. |
| **Savings Shares** | means the Savings Shares, 0.55 euros par value each, of Telecom Italia. |
| **Telecom Italia** | means the entity which resulted from the Merger. |
| **Telecom Italia Group and Group** | means the Company and its consolidated subsidiaries. |

| | |
|---|---|
| **Telecom Italia Media** | Telecom Italia Media is the Telecom Italia Group s subsidiary operating in the Media business. |
| **TIM** | means Telecom Italia Mobile S.p.A., the Company s subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005. |
| **Tim Italia** | means the company deriving from the spin-off of TIM s domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006. |

In addition to the foregoing terms, certain technical telecommunication terms relating to our businesses are defined in the glossary of this Annual Report (see Item 4. Information on the Telecom Italia Group 4.4 Glossary of Selected Telecommunications Terms ).

In addition, due to the changing nature of our business, we now refer to Accesses when considering certain statistical and other data. Access refers to a connection to any of the telecommunications offered by the

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Group. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and BroadBand service represents two accesses rather than a single customer. In addition, we fully count the accesses attributable to all companies over which we exercise control. The following are the main categories of accesses:

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (×1); basic ISDN (×2); primary ISDN (× between 20 and 30 as an average);

- Internet and data accesses: includes BroadBand accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);

- IP TV (Internet Protocol TV);

- Mobile accesses (includes mobile telephony);

- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL ) or only DSL service (shared unbundled loop, shared UL );

- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and

- Other: includes other circuits for other operators.

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Item 1. Identity of Directors, Senior Management and Advisers / Risk Factors

Item 2. Offer Statistics and Expected Timetable

Item 3. Key Information

## PART I

### Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

### Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

### 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 and in particular the risk factor relating to the investigation of Telecom Italia Sparkle 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 April 13, 2010, we set out our strategic priorities for the 2010-2012 period. Our strategy confirms the strategic priorities that the Telecom Italia Group set in December 2008 and in particular:

- a focus on the strategic Italian and Brazilian markets, with the target of a rapid return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;

- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;

- an ongoing reduction in Group debt.

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

- regulatory decisions and change in the regulatory environment in Italy and other countries in which we operate;

- increasing numbers of new competitors in the Italian telecommunications market 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;

- our ability to strengthen our competitive position in Italy through our focus on related markets and in international markets, particularly in Brazil for mobile telecommunications;

- our ability to develop and introduce new technologies which are attractive to the market, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;

- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;

- our ability to manage costs;

- the effect of the global credit crisis and recessionary conditions in the major markets in which we operate;

- our ability to refinance existing indebtedness when due in the capital and bank markets;

- our ability to attract and retain highly qualified employees; and

- the effect of exchange rate fluctuations on our operating revenues, margins and financial management.

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As a result of these uncertainties there can be no assurance that the objectives identified by 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 materially impaired.

***The global economic crisis adversely affected our business in 2009 and continuing global economic weakness could further adversely affect our businesses and therefore have a negative impact on our operating results and financial condition.***

The global economic crisis during 2009 included a general contraction in consumer spending, with the impact on consumer spending varying between geographical areas and different markets. Economic weakness, particularly in our domestic market, is expected to continue for at least the whole of 2010.

In Italy, the recession has had the greatest impact on the demand for investments and on the purchase of consumer durable goods and items of mass-consumption, with Gross Domestic Product ( **GDP** ) declining in 2009. In 2010, GDP is expected to remain stable.

Telecommunications has proven to be one of the industrial segments least affected by pro-cyclical trends since our society has an increasing need to communicate. However, recessionary conditions have weighed, and may continue to weigh, heavily on the development prospects of our domestic market, particularly with regard to the penetration of the next phase of value-added services and the volume of business, key elements of the Group s strategic plan. This applies particularly to the business clientele segment (professionals and small and medium-size businesses), where it is more likely that recessionary conditions could have a negative effect on revenues.

With respect to the South American market, and especially Brazil, throughout 2009 and at least through the date hereof, the volatility that has been typical of emerging market economies during international economic crises is much less pronounced than in the past. In this context, the outlook for 2010 is for modest economic growth compared with the rapid growth of the past several years.

The continuing weakness in the global economy, and in particular the expected slow growth in GDP in our domestic market, creates significant uncertainty and will adversely impact consumer spending, including on telecommunication services. 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.

***Our leverage is such that deterioration in cash flow generation can change the expectations on the Group s ability to repay its debt and the inability to reduce our debt could have a material adverse effect on our business. Existing and worsening conditions in the international credit markets may limit our ability to refinance our financial debt.***

Our gross financial debt was 44,397 million euros at December 31, 2009 compared with 42,794 million euros at December 31, 2008 (restated) and our net financial debt was 34,747 million euros at December 31, 2009 compared with 34,039 million euros as of December 31, 2008 (restated).

Due to the competitive environment and the economic conditions in which we operate, there could be deterioration in the separate income statement and statement of financial position measures used by investors and rating agencies. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody s and Standard & Poor s, which base their ratings on our ability to repay our debt.

Although ratings downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine interest expenses, 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 the performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, continuing disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions also as a result of the continuing financial crisis, could have a significant effect on our ability to reduce our debt, or the ability of the Telecom Italia Group to refinance existing debt through further access to the financial markets.

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The management and further development of our business will require us to make further investments. We may therefore 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.

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

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 harm our reputation.

***Our business depends on the upgrading of our existing networks.***

We must continue to upgrade our existing networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to:

- upgrade the functionality of our networks to permit increased customization of services;
- increase coverage in some of our markets;
- expand and maintain customer service, network management and administrative systems; and
- upgrade older systems and networks to adapt them to new technologies.

Many of these tasks are not entirely under our control and may be affected by applicable regulation. If we fail to execute them successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our business, financial condition and results of operations.

***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. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.***

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

The Italian Collective Action for Damages for the Protection of Consumers was passed in December 2007 and, after undergoing substantial modifications by the Italian Parliament, entered into force on January 1, 2010. The law allows collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action law. Therefore there is a risk of claims against Telecom Italia by consumers associations on behalf of broad classes of consumers.

Due to developments in the Telecom Italia Sparkle case the Company restated prior year financial statements for 2008, 2007, 2006 and 2005.

For information concerning the most important legal, competition and regulatory proceedings and investigations in which we are involved, see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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**Item 3. Key Information** **Risk Factors**

***Risks associated with Telecom Italia s ownership chain.***

Telco S.p.A. ( **Telco** ) a company in which interests are held by Generali group (30.58%), Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), and Telefónica S.A. (Telefónica) (46.18%) is Telecom Italia s largest shareholder, holding an interest of approximately 22.45% of the voting rights.

On October 28, 2009, the shareholders of Telco informed us that Sintonia S.A. ( **Sintonia** ) had exercised its right to apply for the demerger provided for in the April 28, 2007 Shareholders Agreement ( **Shareholders Agreement** ) and exit Telco.

On that same date, the parties to the Shareholders Agreement, other than Sintonia, entered into an amending agreement by which they agreed to renew the Shareholders Agreement for a further three year period, and thus effective from April 28, 2010 up to April 27, 2013. It was also agreed that procedures be evaluated with Sintonia to enable it to withdraw from the capital of Telco as an alternative to the demerger.

On December 22, 2009, Telco and Sintonia completed (i) the acquisition for cash by Sintonia of the Telecom Italia shares held by Telco attributable to it pro-rata (approximately equal to 2.06% of the ordinary share capital) and (ii) the acquisition by Telco of Sintonia s entire shareholding in the share capital of Telco (equal to 8.39% of the share capital) which shareholding has now been cancelled.

Although Telco does not own a controlling interest in Telecom Italia s voting shares, 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 on April 14, 2008 12 out of 15 Board members were elected, as a result of Telco s proposal). 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 Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. Such agreements provide 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 members of the Group in countries where Telefónica and Telecom Italia compete. Specific additional matters have been agreed with respect to Telecom Italia s operations in Brazil. The presence of Telefónica in Telco has, however, resulted in legal and regulatory proceedings in Argentina, which are still pending. For further information, please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.1 The 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. The exercise of such powers could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer.

On March 26, 2009, the European Court of Justice declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the Court s ruling, the alleged infringement of the EC Treaty arises 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 are not in a position to know in what situations the powers will be used. Although such ruling may be relevant and binding for the Italian Government, the ruling does not have any immediate, direct impact on the aforementioned provisions and Telecom Italia s bylaws.

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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 .

**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 our other principal market, Brazil, including levels of interest rates, inflation, taxes and general business condition. A significant deterioration in economic conditions could adversely affect our business and results of operations. The weak economic conditions of 2009 had an adverse impact on our business, particularly in Italy. We may also be adversely affected by political developments in other countries where we have made significant investments. Certain of these countries have political and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments.

Uncertainty about current global economic conditions poses a significant risk as consumers and businesses may 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, such as a recession currently being experienced or the risk of a potential recession, 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 growth targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

***Because we operate in heavily regulated business environments, regulatory decisions and changes in the regulatory environment could materially adversely affect our business.***

Telecom Italia s fixed and mobile telecommunications operations, as well as its BroadBand services and television broadcasting businesses, are subject to extensive regulatory requirements in Italy and its international operations and investments are subject to regulation in their host countries.

As a member of the European Union (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 review of the EU common regulatory framework was approved at the end of 2009 and is expected to be implemented in Italy by May 25, 2011.

Included within the regulatory framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (the **Italian Communications Authority** or **AGCom** ) to identify operators with

significant market power ( **SMP** ) based on a market analyses in relevant separate retail and wholesale markets, identified in an EC Recommendation, in which it is considered necessary to intervene to protect free competition. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power .

During 2006 and 2007, AGCom concluded the first round of the market analyses, identified Telecom Italia as having SMP in the mobile termination market and in all the relevant fixed line markets and, as a result, imposed a number of regulatory constraints, including: a requirement to conduct business in a transparent and non-discriminatory way, a price control mechanism (Price Cap) placing certain limits on the ability to change prices for certain services and a requirement to provide interconnection services, leased lines and unbundled access to the local loop to other operators at cost-orientated prices, subject to specific network caps.

These constraints have had an adverse impact on our fixed line network pricing and service offerings and future regulatory decisions may continue to have an adverse impact on our market shares and margins.

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In Italy, Telecom Italia is also subject to universal service obligations, which require it to provide fixed-line public voice telecommunications services in non-profitable areas. Telecom Italia is, to date, the only operator in Italy which has this obligation.

In December 2008, AGCom approved Telecom Italia s voluntary undertakings (the **Undertakings** ) to improve the equality of treatment in the provision of access services to other operators to Telecom Italia s network, where Telecom Italia has SMP. The formal implementation of the Undertakings was to be in place by March 31, 2010 and implementation appears to be on track. The closing of a number of regulatory proceedings against Telecom Italia will depend on the assessment by AGCom of the actual fulfillment of the Undertakings.

Since the end of 2007 AGCom conducted various proceedings to carry out a second round of market analyses to determine whether to maintain, amend or withdraw the obligations in force.

During 2008 AGCom concluded the second round of analyses of the mobile markets. In particular, as to the mobile call termination market, AGCom required a gradual reduction of the termination rates over a four year period (2009-2012) and provided the introduction of a new cost model which could lead, probably in the coming years, to further reductions of the termination rates, under EU pressure. International roaming is regulated at EU level by a specific regulation recently extended to SMS and data. The EU Regulation could exert regulatory pressure on SMS and data (as to prices and transparency measures) also at national level. The EU Commission will have to review the Regulation and to assess whether further proposals are necessary.

The second round market analyses proceedings with respect to the fixed line markets suspended until AGCom approved the Telecom Italia Undertakings established in December 2008 is almost concluded. To date, AGCom has reviewed the regulations focusing on wholesale obligations while relaxing retail regulations.

The regulatory approach to Next Generation Access has not been completely defined with respect to the implementation conditions for fiber access services. As Next Generation Access will require significant investments, the regulatory uncertainty regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on the Group s cash flows and financial condition.

In general, we are unable to 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 technologies. 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 we are subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of authorizations, to Telecom Italia or to third parties, could adversely affect our future operations in Italy and in other countries where we operate.

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 our businesses operate, see Item 4. Information on the Telecom Italia Group 4.3. The Regulatory framework section.

***We operate under licenses, authorizations and concessions granted by government authorities.***

Many of our activities require licenses, authorizations or concessions from governmental authorities. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of our licenses, authorizations and concessions are subject to review by regulatory authorities and to interpretation, modification or termination by these authorities. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms. Moreover, licenses, authorizations and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors. As licenses, authorizations and concessions approach the end of their terms, we intend to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, although we cannot guarantee that we will always complete this process successfully.

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Many of these licenses, authorizations and concessions 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 licenses, authorizations and concessions typically require us to satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession for the relevant area. In addition, the need to meet scheduled deadlines may require us to expend more resources than otherwise budgeted for a particular network build-out.

***Strong competition in Italy may further reduce Telecom Italia s core market share for telecommunication services and may cause further reductions in prices and margins thereby having an adverse effect on its results of operations.***

Strong competition exists in all of the principal telecommunications business areas in Italy in which Telecom Italia operates, including, most significantly, the fixed-line and mobile voice telecommunications and BroadBand businesses. The use of the single European currency and the liberalization of the Italian telecommunication market (since January 1998) have intensified competition by facilitating international operators entry into the Italian market and direct competition with Telecom Italia s fixed-line and mobile telephony businesses, particularly in the local and long-distance markets, and BroadBand.

Competition has continued to intensify. As of the date of this Annual Report, there are a number of significant competitors offering fixed-line and BroadBand services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. 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 creates economic links among the Telecommunications ( **TLC** ), Information Technology ( **IT** ), Media and Devices/Consumer Electronic ( **Devices/CE** ) markets, enabling lateral competition for different participants in these markets (from competition within the same technology to competition on the whole value chain). The ability to compete will determine value transfer among markets.

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 new local operators, each of which has increased the direct competition we face in our Italian domestic fixed-line and mobile telephony businesses, in the local and long-distance markets, and BroadBand.

Competition in Telecom Italia s principal lines of business could lead to:

- further price and margin erosion for its products and services;
- a loss of market share in 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 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 it 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 to enhance domestic growth, and although our plans take into account that we face significant competition from a number of operators in all the markets in which we operate, if any or all of the events described in the preceding paragraph should occur, the impact of such factors could materially adversely affect our results of operations and financial condition.

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***Our business may be adversely affected and we may be unable to increase our revenues if we are unable to continue the introduction of new services to stimulate increased usage of our fixed and wireless networks.***

In order to sustain growth in revenues despite increased competition and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line, wireless and BroadBand business and in new addressable closely related markets (IPTV, ICT, Online advertising, Digital Home and Service Exposure). In recent years our strategy to increase revenues has been to focus on increasing the loyalty of our customer base, increasing penetration of the BroadBand retail market and IPTV and fostering the growth of mobile interactive services. These markets have been growing in recent years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand, our revenues may not grow, or may even decrease, as revenues from other parts of our business, particularly our traditional fixed-line business, may decline due to competition or other price pressures.

In addition, these strategic initiatives have required, and will continue to require, substantial expenditure. Although these initiatives are core to our strategy, we may be unable to introduce commercially these new products and services and, even if we introduce them, there can be no assurance they will be successful.

***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. 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 not prove to be commercially successful. In addition, Telecom Italia may not receive the necessary licenses 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 (for example, uncertainty on Next Generation Access Networks regulatory requirements). 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, 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.

***The mobile communications markets have matured in recent years and competition has increased.***

In recent years, mobile communications markets have been approaching maturity levels in our domestic market in the voice services segment although the data and value-added services segments continue to grow.

Further growth in 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;

- the success of new disruptive or substitute technologies; and

- the development of the mobile communications markets.

In addition, as our core domestic Italian market has become increasingly saturated, the focus of competition has shifted to customer retention from customer acquisition, and increasing the value of existing customers. 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.

If the mobile telecommunications markets in which we operate do not continue to expand, or we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed.

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***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 element of our growth strategy and means to increase the use of our networks in Italy and abroad. Our strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users preferences or lower than expected PC penetration rate growth;

- BroadBand penetration does not grow as we expect;

- competition increases, for reasons such as the entry of new competitors, 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.

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

We intend to focus on IT-TLC convergence by addressing the ICT market, in particular offering network and infrastructure management, as well as application management and professional services. 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.

We will need to make additional investments in this market as Italy has significantly lower IT investment over GDP compared with the U.S. and other European countries.

There is no assurance that the services offered will be successful; as a result we could fail to attract sufficient customers which would allow this market to become profitable.

***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 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 Brazilian Real) may adversely affect our consolidated results. 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. We systematically 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 and diversifying debt parameters in order to reach lower cost of debt and manage the volatility of our separate 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.

***Telecom Italia might be adversely affected if the allegations into the investigation of Telecom Italia Sparkle are found to have merit.***

On February 23, 2010, the Italian Finance Police, at the request of the Prosecutor s Office of Rome (the **Prosecutor** ), served our subsidiary Telecom Italia Sparkle with a court order (the **Order** ) in connection with an ongoing investigation regarding Telecom Italia Sparkle and several individuals, including certain employees, former employees and former directors of Telecom Italia Sparkle, regarding, inter alia, alleged cross border criminal conspiracy, tax evasion, international money laundering, reinvestment of profits from criminal activities, and registering assets under a false name. The Order:

a) set a fast track hearing procedure concerning the *request to apply the measure to prohibit Telecom Italia Sparkle from performing activities and to be replaced with a judicial arbitrator* pursuant to Legislative Decree No.231/2001 ( **Law 231** ); and

b) also provided for the seizure of approximately 298 million euros as an interim measure, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation.

The charges of cross border criminal conspiracy, international money laundering and reinvestment of profits from criminal activities are possible offenses that may entail administrative liability for a corporation in accordance with Law 231.

The investigation refers to certain sales transactions effected in the financial years 2005, 2006 and 2007 related to Premium telecommunications services carried over the Telecom Italia Sparkle network and conducted with a number of small telecommunications carriers resident in the European Union (EU).

In anticipation of the Preliminary Investigating Magistrate s decision, the Board of Directors of Telecom Italia Sparkle appointed an independent party to carry out an analysis of the internal control system and of the Organisational Model 231. In accordance with Law 231, the employees involved in the investigation have either been suspended or, for those imprisoned, their employment was terminated.

In addition to the amounts seized, Telecom Italia Sparkle provided guarantees for 195 million euros, of which 72 million euros corresponds to the potential seizure of profits generated by the sales transactions noted above, and 123 million euros corresponds to the difference between the amount already seized and corresponding to the VAT deducted during tax years 2005, 2006 and 2007 (298 million euros), and the highest amount the company could potentially owe in settlement of its tax position regarding the use of VAT credits on the basis of one of the possible settlement procedures with the Italian Tax Authorities.

Drawing upon information available under the Order and following an independent documentary investigation by legal and accounting advisors for Telecom Italia Sparkle, we concluded that in accordance with IAS 8 we would restate prior year financial statements for 2005, 2006, 2007 and 2008. In connection with our 2009 financial statements, we have established an accrual of 507 million euros relating to certain VAT claims made mainly in connection with the sales transactions in 2005, 2006 and 2007.

For further details regarding the restatement, please see Item 5 *Operating and Financial Review and Prospects 5.1 Restatement due to errors* and Notes *Restatement as a result of errors and changes in accounting policies* and *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Telecom Italia may be further adversely affected if the allegations into the investigation of Telecom Italia Sparkle are found to have merit.

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**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. dollar 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.$ 1.4332, using the 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, 2009.

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 2005 to 2009 and for the beginning of 2010 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 |
|---|---|---|---|---|
| 2005 | 1.3476 | 1.1667 | 1.2448 | 1.1842 |
| 2006 | 1.3327 | 1.1860 | 1.2563 | 1.3197 |
| 2007 | 1.4862 | 1.2904 | 1.3705 | 1.4603 |
| 2008 | 1.6010 | 1.2446 | 1.4725 | 1.3919 |
| 2009 | 1.5100 | 1.2547 | 1.3936 | 1.4332 |
| 2010 (through May 6, 2010) | 1.4536 | 1.2689 | 1.3679 | 1.2689 |

| Monthly Rates | High | Low | Average(1) | At Period end |
|---|---|---|---|---|
| October 2009 | 1.5029 | 1.4532 | 1.4821 | 1.4755 |
| November 2009 | 1.5085 | 1.4658 | 1.4908 | 1.4994 |
| December 2009 | 1.5100 | 1.4243 | 1.4579 | 1.4332 |
| January 2010 | 1.4536 | 1.3870 | 1.4266 | 1.3870 |
| February 2010 | 1.3955 | 1.3476 | 1.3680 | 1.3660 |
| March 2010 | 1.3758 | 1.3344 | 1.3570 | 1.3526 |
| April 2010 | 1.3666 | 1.3130 | 1.3417 | 1.3302 |
| May 2010 (through May 6, 2010) | 1.3183 | 1.2689 | 1.2950 | 1.2689 |

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

The Ordinary Shares, par value 0.55 euros (the **Ordinary Shares**) and Savings Shares, par value 0.55 euros (the **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.

On completion of the Merger, Telecom Italia (formerly Olivetti) became a successor registrant to Old Telecom Italia under the Securities Exchange Act of 1934, as amended (the **1934 Act**) and, therefore, became subject to and continues to file periodic reports under the 1934 Act required for a foreign private issuer. Telecom Italia (formerly Olivetti) obtained a listing of the Ordinary Shares and Savings Shares issued at completion of the Merger, on the NYSE where such Ordinary Shares and Savings Shares trade in the form of ADSs.

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**3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION**

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2009, 2008, 2007, 2006 and 2005, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB.

As discussed in the Note *Restatement as a result of errors and changes in accounting policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report , following certain adjustments and corrections for errors as defined by IAS 8 made in connection with the Telecom Italia Sparkle case and due to the retrospective application, starting from January 1, 2009, of IFRIC 13 (*Customer Loyalty Programmes*) the comparative data of the corresponding periods of the years 2008, 2007, 2006 and 2005 have been appropriately adjusted and referred to as restated .

As a result of the restatement of the financial statements relating to the financial years 2005, 2006, 2007 and 2008 Reconta Ernst & Young S.p.A. withdrew, in accordance with audit principles as applicable in the United States (PCAOB rules), their audit opinions for the corresponding years on Form 20-F. Reconta Ernst & Young S.p.A. have issued an unqualified audit report on the Telecom Italia consolidated financial statements for the three years ended December 31, 2009 included in this Annual Report.

Until December 31, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information in accordance with Italian GAAP.

Furthermore, pursuant to SEC Release No. 33-8879, *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP* , Telecom Italia includes Selected Financial Data prepared in compliance with IFRS, without reconciliation to U.S. GAAP.

In 2009, the Group applied the accounting policies on a basis consistent with previous years and did not elect the early adoption of any IFRS, except for IFRS 3R (*Business Combinations*) and IAS 27R (*Consolidated and Separate Financial Statements*). The effects of the early adoption of IFRS 3R and IAS 27R are described in the Note Accounting Policies of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

In addition, certain non-GAAP financial measures are presented.

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

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**Item 3. Key Information** **Selected Financial And Statistical Information**

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009(1) (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(2) | 2009(1) | 2008(1) (Restated) | 2007(1) (Restated) | 2006(1) (Restated) (Unaudited) | 2005(1) (Restated) (Unaudited) |
| | | | (millions of euros, except percentages, ratios, employees and per share amounts) | | | |
| **Separate Consolidated Income Statement Data:** | | | | | | |
| **Revenues** | **33,655** | **27,163** | **29,000** | **29,802** | **29,785** | **29,193** |
| **Operating profit** | **6,806** | **5,493** | **5,437** | **5,738** | **7,269** | **7,548** |
| **Profit before tax from continuing operations** | **4,137** | **3,339** | **2,894** | **4,120** | **5,366** | **5,596** |
| **Profit from continuing operations** | **2,748** | **2,218** | **2,217** | **2,459** | **2,855** | **3,200** |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | (771) | (622) | (39) | (99) | (159) | 401 |
| **Profit for the year** | **1,977** | **1,596** | **2,178** | **2,360** | **2,696** | **3,601** |
| · *Profit attributable to owners of the Parent(3)* | *1,959* | *1,581* | *2,177* | *2,353* | *2,707* | *3,127* |
| **Investments:** | | | | | | |
| · Capital expenditures | 5,629 | 4,543 | 5,040 | 5,031 | 4,698 | 4,916 |
| · Financial | 7 | 6 | 6 | 637 | 206 | 14,934 |
| **Financial Ratios:** | | | | | | |
| · Operating profit/Revenues (ROS)(%) | 20.2% | 20.2% | 18.7% | 19.3% | 24.4% | 25.9% |
| · Ratio of earnings to fixed charges(4) | 2.51 | 2.51 | 2.21 | 2.67 | 3.13 | 3.17 |
| **Employees, average number 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) | 69,964 | 69,964 | 73,508 | 75,735 | 77,374 | 78,258 |
| Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number) | 2,168 | 2,168 | 3,277 | 3,893 | 2,898 | 6,089 |
| **Basic and Diluted earnings per Share (EPS)(5):** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| · **Ordinary Share** | **0.10** | **0.08** | **0.11** | **0.12** | **0.14** | **0.17** |
| · **Savings Share** | **0.11** | **0.09** | **0.12** | **0.13** | **0.15** | **0.18** |
| *Of which:* | | | | | | |
| *From continuing operations:* | | | | | | |
| · *Ordinary Share* | *0.14* | *0.11* | *0.11* | *0.12* | *0.15* | *0.15* |
| · *Savings Share* | *0.15* | *0.12* | *0.12* | *0.13* | *0.16* | *0.16* |
| *From Discontinued operations/Non-current assets held for sale:* | | | | | | |
| · *Ordinary Share* | *(0.04)* | *(0.03)* | | | *(0.01)* | *0.02* |
| · *Savings Share* | *(0.04)* | *(0.03)* | | | *(0.01)* | *0.02* |
| | | | | | | |
| **Dividends:** | | | | | | |
| · per Ordinary Share | 0.0620 | 0.0500(6) | 0.0500 | 0.0800 | 0.1400 | 0.1400 |
| · per Savings Share | 0.0756 | 0.0610(6) | 0.0610 | 0.0910 | 0.1510 | 0.1510 |

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**Item 3. Key Information** — **Selected Financial And Statistical Information**

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009(1) (millions of U.S. dollars, except employees)(2) | 2009(1) | 2008 (Restated) | 2007 (Restated) | 2006 (Restated) (Unaudited) | 2005 (Restated) (Unaudited) |
| | | (millions of euros, except employees) | | | | |
| **Consolidated Statement of Financial Position Data:** | | | | | | |
| **Total Assets** | **106,778** | **86,181** | **85,650** | **87,428** | **89,457** | **96,010** |
| **Equity:** | | | | | | |
| · Equity attributable to owners of the Parent | 32,154 | 25,952 | 25,598 | 25,431 | 25,622 | 25,573 |
| · Non-controlling interests | 1,447 | 1,168 | 730 | 1,063 | 1,080 | 1,323 |
| **Total Equity** | **33,601** | **27,120** | **26,328** | **26,494** | **26,702** | **26,896** |
| **Total liabilities** | **73,177** | **59,061** | **59,322** | **60,934** | **62,755** | **69,114** |
| **Total equity and liabilities** | **106,778** | **86,181** | **85,650** | **87,428** | **89,457** | **96,010** |
| **Share capital(7)** | **13,115** | **10,585** | **10,591** | **10,605** | **10,605** | **10,599** |
| **Net Financial Debt(8)** | **43,052** | **34,747** | **34,039** | **35,701** | **37,301** | **39,858** |
| **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) | 71,384 | 71,384 | 75,320 | 79,238 | 80,373 | 83,187 |
| · Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end) | 2,205 | 2,205 | 2,505 | 4,191 | 2,836 | 3,344 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2009(1) | 2008(1) | 2007(1) | 2006(1) | 2005(1) |
| **Statistical Data:** | | | | | |
| Fixed-line network connections in Italy at year-end (thousands) | 18,525 | 20,031 | 22,124 | 23,698 | 25,049 |
| Physical accesses (Consumer and Business) at year-end (thousands) | 16,097 | 17,352 | 19,221 | 20,540 | 21,725 |
| BroadBand accesses in Italy at year-end (thousands) | 8,741 | 8,134 | 7,590 | 6,770 | 5,707 |
| *Of which retail (thousands)* | *7,000* | *6,754* | *6,427* | *5,600* | *3,920* |
| Total numbers of lines at year-end (thousands) | 71,958 | 71,199 | 67,585 | 57,860 | 48,747 |
| *Of which numbers of lines at year-end in Italy (thousands)* | *30,856* | *34,797* | *36,331* | *32,450* | *28,576* |
| *Of which numbers of lines at year-end in Brazil (thousands)* | *41,102* | *36,402* | *31,254* | *25,410* | *20,171* |

(1) For purposes of comparison, the data of the periods under comparison have been appropriately restated because starting from 2009 HanseNet Telekommunikation GmbH has been treated as a Discontinued operations/Non-current asset held for sale.

(2) For the convenience of the reader, Euro amounts for 2009 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on May 14, 2010, of 1.00 = U.S.$ 1.2390

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

(4) For purposes of calculating the ratio of earnings to fixed charges :

· Earnings is calculated by adding:

profit before tax from continuing operations;

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fixed charges (as defined below);

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

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

(5) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group s profit 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 13,220,792,908 for the year ended December 31, 2009, 13,246,643,947 for the year ended December 31, 2008, 13,254,934,303 for the year ended December 31, 2007, 13,254,860,233 for the year ended December 31, 2006, and 12,283,195,845 for the year ended December 31, 2005;

· Savings Shares was 6,026,120,661 for the years ended December 31, 2009, 2008, 2007 and 2006, 5,930,204,164 for the year ended December 31, 2005.

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 is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(6) Telecom Italia s dividend coupons for the year ended December 31, 2009, will be clipped on May 24, 2010, and will be payable from May 27, 2010.

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

(8) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.3 Results of Operations for the Three Years Ended December 31, 2009 5.3.3 Non-GAAP Financial Measures .

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**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.

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) |
| 2005 | 0.1400 | 0.1753 | 1,873.12 | 0.1510 | 0.1891 | 909.94 |
| 2006 | 0.1400 | 0.1903 | 1,873.13 | 0.1510 | 0.2052 | 909.94 |
| 2007 | 0.0800 | 0.1253 | 1,070.36 | 0.0910 | 0.1426 | 548.38 |
| 2008 | 0.0500 | 0.066115 | 667.16 | 0.0610 | 0.08066 | 367.59 |
| 2009(2) | 0.0500 | 0.063445 | 667.16 | 0.0610 | 0.077403 | 367.59 |

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. As far as year ended December 31, 2009 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on May 6, 2010.

(2) Approved at the Annual Shareholders Meeting held on April 29, 2010. 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, 2009 will be clipped on May 24, 2010, and will be payable from May 27, 2010.

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 120 days after the end of the financial year to which it relates. 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.

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 .

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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 of 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 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 convention, claims for such benefits must be accompanied by the required information. See Item 10. Additional Information 10.6 Taxation .

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## Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

### 4.1 BUSINESS

#### 4.1.1 Background

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia is a joint-stock company established under Italian law on October 20, 1908 with registered offices in Milan at Piazza degli Affari 2. Telephone number is +39.02.85.95.1. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695, R.A.E.E. number IT08020000000799.

Our Depositary in New York (JP Morgan Chase) is presently located at 4 New York Plaza, New York, New York 10004.

The duration of the company, as stated in the company s Bylaws, extends until December 31, 2100.

On July 18, 1997, Old Telecom Italia s predecessor company was merged with and into Società Finanziaria Telefonica per Azioni ( **STET** ), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to Telecom Italia S.p.A. . In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatization of Telecom Italia, selling substantially all of its stake in the Old Telecom Italia Group through a global offering and a private sale to a stable group of shareholders.

On May 21, 1999, Olivetti obtained control of the Old Telecom Italia Group through a tender offer where approximately 52.12% of Old Telecom Italia Ordinary Shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia, whose largest shareholder was Pirelli & C. S.p.A. ( **Pirelli** ), acquired a 28.7% stake in Olivetti.

On December 9, 2002, the Ministry of the Treasury sold its remaining stake in Old Telecom Italia Ordinary and Savings share capital.

On August 4, 2003, Old Telecom Italia merged with and into Olivetti (the **Merger** ). Olivetti, as the surviving company, changed its name to Telecom Italia S.p.A. . Following the Merger, the proportionate ownership of Telecom Italia s share capital by shareholders unaffiliated with Olimpia or Pirelli, Olimpia s largest shareholder, increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the acquisition by Telecom Italia of the share capital in TIM that it did not already own (the **TIM Acquisition** ), Olimpia held approximately 17% of Telecom Italia s Ordinary Shares, making it the largest shareholder of Telecom Italia. As a result of a series of transactions in December 2004 and March 2005, Olimpia acquired additional Ordinary Shares reaching a stake of approximately 21.4% of the outstanding Ordinary Shares.

On June 30, 2005, TIM merged with and into Telecom Italia.

Following the issuance of shares of Telecom Italia in exchange for outstanding shares of TIM held by third parties, as a result of the merger of TIM into Telecom Italia through which the TIM Acquisition was effected, Olimpia s stake was diluted to approximately 18%.

Effective as from March 1, 2006, Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company.

On April 28, 2007, a group of investors (the **Investors** or the **Parties** ), made up of 1) Assicurazioni Generali S.p.A., Sintonia S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. (the **Class A Shareholders** ) and 2) Telefónica S.A. ( **Telefónica** ), entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which the Investors purchased the entire share capital of Olimpia, from Pirelli and Sintonia S.p.A. and Sintonia (together **Sintonia Sellers** ).

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and the Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was completed on October 25, 2007 by Telco, to

which Ordinary Shares equal to 5.6% of the ordinary share capital were contributed on the same date by Mediobanca S.p.A. and companies of the Generali group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia s ordinary share capital, of which 17.99% was held through Olimpia.

Telco was held by Generali group ( **Generali group** ) (28.1%), Intesa Sanpaolo S.p.A. ( **Intesa Sanpaolo** ) (10.6%), Mediobanca S.p.A. ( **Mediobanca** ) (10.6%), Sintonia (8.4%) and Telefónica S.A. (42.3%).

With effect from December 18, 2007, Olimpia merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.595% in Telecom Italia s ordinary share capital.

On March 20, 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia s ordinary share capital to 24.5%.

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders agreements concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders that Telecom Italia is aware of are the agreements among the Investors and Telco.

On October 28, 2009, Sintonia requested, pursuant to Article 11(b) of the Shareholders Agreement, the non-proportional de-merger of Telco, with the assignment of its pro-rata share of the assets and liabilities of Telco (comprised of Telecom Italia Shares held by Telco representing approximately 2.06% of Telecom Italia s share capital).

On the same date, the Investors other than Sintonia, Intesa Sanpaolo, Mediobanca, Generali group and Telefónica (collectively, the **Non-Exiting Shareholders** ) acknowledged Sintonia s decision and, by entering into a Renewal Agreement dated October 28, 2009, and effective as of April 28, 2010, (the **Renewal Agreement** ), agreed (i) not to request the non-proportional de-merger of Telco, with the assignment of their corresponding share of Telecom Italia Shares at that time; and (ii) to renew the Shareholders Agreement for an additional term of three years until April 27, 2013, substantially on the same terms and conditions, except to provide that (a) the right of the Non-Exiting Shareholders to request the non-proportional de-merger of Telco not later than six months prior to the new expiry date will only be exercisable in the period between October 1, 2012, and October 28, 2012, and (b) for an early withdrawal right period exercisable between April 1, 2011, and April 28, 2011, (such Shareholders Agreement, as amended and renewed, the **New Shareholders Agreement** ).

The Non-Exiting Shareholders also agreed, in the Renewal Agreement, to consider and evaluate together with Sintonia mutually agreed alternatives to permit Sintonia to exit Telco, other than through non-proportional de-merger.

The terms of Sintonia s exit were approved on November 26, 2009, when an extraordinary general meeting of the Telco shareholders unanimously approved a proposal of the Telco board of directors to permit Sintonia to exit Telco in a single transaction consisting of two parts.

The transaction was concluded on December 22, 2009 when Telco and Sintonia executed a purchase and sale agreement pursuant to which: (i) Sintonia acquired the Sintonia Telecom Italia Shares from Telco for a consideration of 605,254,575.20 euros (equal to a price of 2.20 euros for each Sintonia Telecom Italia Share), and (ii) Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia s Telco shares (equal to 162,752,995 class A shares, constituting 8.39% of Telco s share capital) for a consideration of 293,461,160.95 euros (equal to a price of approximately 1.80 euros for each Telco share) which was equal to the pro rata net asset value of Sintonia s interest in Telco as of December 15, 2009.

Currently Telco interests are held by Generali group (30.58%), Intesa Sanpaolo (11.62%), Mediobanca (11.62%) and Telefónica (46.18%). See Item 7. Major Shareholders and Related-Party Transactions for a description of the new shareholder arrangements.

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### 4.1.2 Development

The update to the 2010-2012 Strategic Plan announced to the financial market on April 13, 2010, confirms the strategic priorities that the Telecom Italia Group set in December 2008 and in particular:

- a focus on the strategic Italian and Brazilian markets, with the target of a return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;
- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;
- an ongoing reduction in Group debt.

In particular, in December, 2008, the Telecom Italia Group announced, among other things, the new customer-centric approach (consumer, business and Top Client).

Such approach was intended to foster a natural convergence of technology and service offerings on the one side and a more effective use of operational and competitive levers, on the other. In particular, it allowed:

- a better and more thorough segmentation of customer needs;
- the offering of service packages, based on the actual priorities of customers; and
- the re-engineering of Telecom Italia s distinctive capabilities (customer care, sales channels and IT systems).

For more details about the organizational structure, please see 4.1.7 Updated Strategy and 4.1.8 The Organizational Structure .

### 4.1.3 Business

The Group operates mainly in Europe, the Mediterranean Basin and South America.

The Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

Telecom Italia is one of three mobile operators licensed to provide services using GSM 900 technology in Italy and one of three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS license and providing third-generation telephony services in Italy.

At December 31, 2009 the Telecom Italia Group was one of the world s largest fixed telecommunications operators with approximately 16.1 million physical accesses (consumer and business) in Italy, a decrease of 1.3 million compared to December 31, 2008. The Wholesale customer portfolio reached approximately 6.2 million accesses for telephone services at December 31, 2009, an increase of approximately 1.2 million compared to December 31, 2008. The overall access market was stable compared to December 2008.

The BroadBand portfolio in Italy reached 8.7 million accesses at December 31, 2009 (consisting of approximately 7.0 million retail accesses and 1.7 million wholesale accesses), an increase of 0.6 million accesses compared to December 31, 2008.

In addition, the Telecom Italia Group had approximately 30.8 million mobile telephone lines at December 31, 2009 (34.8 million at December 31, 2008); the reduction compared to December 31, 2008 can be attributed to a more selective sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

At December 31, 2009, the Telecom Italia Group had 41.1 million mobile telephone lines in Brazil (36.4 million at December 31, 2008).

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#### 4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2009

For a description of disposals and acquisitions of significant equity investments in 2009 please see Note Form, Content and Other General Information , Note Business Combinations and Transactions among Companies Under Common Control , Note Other Non-Current Assets and Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### 4.1.5 Recent Developments During 2010

The Group announced its results for the first quarter ended March 31, 2010 on May 6, 2010. The press release setting out the first quarter results was filed by the Group on a form 6-K with the SEC on May 6, 2010.

For a description of other recent developments, including the Telecom Italia Sparkle case, please see Item 8. Financial Information 8.2 Legal Proceedings and *Note Events Subsequent to December 31, 2009* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### 4.1.6 Overview of the Telecom Italia Group s Major Business Areas

Telecom Italia is the parent company of the Telecom Italia Group.

Due to the sale of the BroadBand business in Germany, which was completed on February 16, 2010, HanseNet was classified in Discontinued Operations while the other companies in the European BroadBand Business Unit have become part of Other Operations. Consequently, disclosure for that operating segment is no longer presented and for comparison purposes the income statement has been restated for the various periods under comparison.

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2009:

(*) Main subsidiaries: Telecom Italia S.p.A.; Matrix S.p.A.; Telenergia S.p.A.; Telecontact Center S.p.A. and PAth.Net S.p.A.

For the domestic market, Telecom Italia Group has adopted a new *customer centric* organization; this change involved a new manner of representing the Domestic Business Unit. For more details, please see 4.2 Business Units - 4.2.1 Domestic .

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For further details about companies which are a part of the various Business Units, reference should be made to Note List of companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

For the revenues, operating profit (loss), capital expenditures, number of employees and selected statistical data of the Telecom Italia Group s Business Units please see Item 5. Operating and financial review and prospects 5.3 Results of operations for the three years ended December 31, 2009 5.3.5 Business unit financial data .

### 4.1.7 Updated Strategy

***Strategic Guidelines and Targets for the 2010-2012 Three-year Period (the Plan )***

The updated 2010-2012 Strategic Plan was announced on April 13, 2010, and confirms the strategic priorities that the Telecom Italia Group set in December 2008. These strategic priorities include:

- a focus on the strategic Italian and Brazilian markets, with the target of a return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;
- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;
- an ongoing reduction in Group debt.

***Domestic market***

On the domestic market, Telecom Italia will continue to pursue the following priorities which it commenced in 2009:

- reverse the trend in revenues by accelerating mobile sector turnaround and building on good fixed-line performance;
- rationalize costs and implementation of the new operating model;
- excellence in customer satisfaction;

· ongoing improvement in dialogue with the regulatory authorities.

The Plan confirms the seven areas of Lean Company model intervention for efficiency enhancement, leading to a further 0.7 billion euros cash cost reduction in addition to the previously announced 2 billion euros over the three-year period 2009-2011, for a total of 2.7 billion euros by 2012.

***Brazil***

Brazil remains an important emerging market on which Telecom Italia is keen to continue strengthening its position by leveraging Tim Brasil s ability to exploit opportunities arising from migration from fixed line to mobile.

The Brazil plan for growth is based on three pillars:

· penetration and expansion of market share;

· boost traffic by leveraging the concept of community, and by targeting mobile replacement of fixed lines; and

· selective development of mobile broadband, with the focus on micro-browsing.

The focus in the Brazilian market remains quality of service, leadership in innovation, and a customer-centric approach. Integration with Intelig Telecomunicações Ltda ( **Intelig** ), acquired at the end of 2009, will also enable the Group to pursue convergence, as well as giving a substantial boost to efficiency and cash cost projects. For further details about the integration with Intelig please see 4.2.2 Brazil .

*There can be no assurance that these objectives will actually be achieved.*

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### 4.1.8 The Organizational Structure

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 30, 2010:

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Item 4. Information On The Telecom Italia Group Business Units

## 4.2 BUSINESS UNITS

### 4.2.1 Domestic

The Domestic Business Unit operates as the consolidated market leader in Italy in providing telephone and data services on fixed-line and mobile networks for final retail voice 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).

The Domestic Business Unit is organized as follows as of December 31, 2009:

(*) Principal companies: Telecom Italia S.p.A., Matrix S.p.A., Telenergia S.p.A., Telecontact Center S.p.A. and PAth.Net S.p.A.

As regards the new customer centric organization which the Telecom Italian Group has adopted for the domestic market, the manner of representing the Business Unit has changed from the one presented in the 2008 annual report in which such information had been organized by fixed and mobile technology.

The principal operating and financial data of the Business Unit is now reported according to two Cash-generating units ( **CGU** ):

- **Core Domestic:** Core Domestic includes all telecommunications activities related to the Italian market. Revenues indicated in the tables that follow are divided 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 new customer centric organizational model are as follows:
  - **Consumer**: Consumer comprises the aggregate of voice and internet services and products managed and developed for consumers and families in the fixed and mobile telecommunications markets, public telephony and the web portal/services of the Matrix S.p.A.;
  - **Business**: Business consists of the aggregate of voice, data, internet and ICT solutions services and products managed and developed for the SMEs (small and medium-sized enterprises) and SOHO (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top**: Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for the Top, Large Account and Enterprise clientele in the fixed and mobile telecommunications area;

- **National Wholesale**: National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile operators in the domestic market;

- **Other** (support structures): Other includes:

  - Technology & Operations: services related to the development, building and operation of network infrastructures, real estate properties  plant and information technology, in addition to delivery and assurance processes regarding clientele services;

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- Staff & Other: services carried out by staff functions and support activities conducted by minor companies of the Group (Telenergia S.p.A.) offered to the market and other Business Units.

- **International Wholesale**: 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, ISP/ASP (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

v **Marketing and Distribution**

As a result of the newly adopted customer centric approach Telecom Italia revised its sales structure as follows:

***Consumer***

Through December 31, 2009 the sales structure of Telecom Italia was organized according to a vertical, multi-channel approach, in which different types of distribution channels specialized in different customer segments of the market. This approach rewards the focus and customization of the channel-offering-market mapping.

Consumer customers are now managed by several channels focused on volume and value acquisitions, including:

- the *Telesales* channel: an *Outbound* network of approximately 11 partners with 1,500 operators supported by less than 61 internal resources;

- the *Push* channel: a network of 40 partners with 650 sales agents assisted by 64 internal resources;

- the *Pull* channel: consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of approximately 4,120 retail points of sale and 340 sub-dealers (at December 2009). The points of sale are geographically widespread and of many different types (direct; franchisee; monobrand; organized and specialized large-scale distribution).

In addition to these partners, there was the *Public Telephone* channel, a network of approximately 50 partners focused on National and International prepaid card services and associated traffic packages.

***Business***

During 2009, our Business Market Department changed the structure of the commercial channels, by integrating the fixed and mobile offering, according to a customer centric approach.

This new structure can be summarized as:

- *SA Senior Account* channel: a network organized geographically based on about 110 partners focused on high level SME customers;
- *BP Business Partner* channel: a network based on about 90 partners and 1,200 agents, focused both on high value customers (supervising a portfolio of customers) and Soho customers;
- *VAR Value Added Reseller* channel: a network organized geographically based on about 90 partners, focused on VAS development, on customized offering and on complex networks;
- outbound call centre: 3 partners focused on specific canvass and loyalty activities;
- community account: 60 agents focused on vertical segmentation;
- shops: some specific shops (600 of 4,000 shops) offering business products and assistance.

***TOP***

The Top Customers (almost 20,500) benefit from direct coverage by almost 670 sales personnel that have a dedicated portfolio to supervise and develop. The main activities include:

- offering the whole range of services (fixed, mobile, telephone, data, ICT services and products); and
- supporting the customer and providing assistance, when required.

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*National Wholesale Services*

The National Wholesale Services ( **NWS** ) sales channel manages relationships with approximately 250 other TLC operators, which are both customers and competitors of Telecom Italia. In fact these operators purchase Telecom Italia intermediate network services that are integrated with their infrastructure for resale to their customers.

To ensure complete management of the relationship with its customers, NWS function is organized to cover all stages:

- definition of commercial offers, developed by its marketing staff under the conditions set by regulators;
- marketing through its vendors;
- providing assistance and services through 5 poles distributed in the country and with the help of the functions of Technology;
- developing, managing billing and administrative reports.

The organizational autonomy of NWS allows Telecom Italia, along with other conditions (separation of accounts, compliance with the resolutions of the Authority) to manage transparency and fairness in the relationship with other operators.

v **Commercial Agreements**

The main commercial agreements entered into during 2009 by the Domestic Business Unit were as follows:

- At the beginning of 2009, the Impresa Semplice plan was launched to offer a portfolio of integrated solutions dedicated to SMEs. The Impresa Semplice solutions include accesses to fixed and mobile networks, voice and data communications systems, messaging and collaboration tools, telecommunications products and computer work stations (personal computers, including assistance, original software and in the cloud services), hosting and virtualization of hardware and software resources. Due to high-speed full IP access networks, hardware resources and software applications available at Telecom Italia s Data Centers, companies may also gain access to more sophisticated ICT services at limited costs.
- On March 3, 2009, Telecom Italia executed an agreement with Mediaset through which it will be able to access content in the Mediaset Premium package through Alice Home TV. This package boosts the Telecom Italia IPTV platform with new content adding films, TV series, cartoons and the best of the soccer Serie A TIM Championships.
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On June 5, 2009, Telecom Italia and Aria signed a series of agreements which allow them to focus on their respective strategies and build infrastructure synergies with the aim of closing the Digital Divide and extending high-speed internet access to those areas of Italy that have not yet been reached by ADSL service. The first agreement grants Aria the right to use Telecom Italia s Wi-Max frequencies in the regions of central and southern Italy such as Abruzzo, Umbria, Lazio, Molise, Puglia, Campania, Basilicata, Calabria and Sardegna. At the same time, Aria will see that the minimum coverage is reached, guaranteeing the commitments undertaken with the Ministry of Economic Development. Under the agreement, Telecom Italia may also supply broadband using Wi-Max technology to its own customers throughout Italy, attributable to Aria s white label wholesale package. Finally, due to another agreement, Aria will use Telecom Italia s transport network infrastructure to build its own network.

· In June 2009, Telecom Italia was successful in its bid with Unipol Gruppo Finanziario to start up a server contact center dedicated to the group s four companies (Sertel, Linear, Banca Unipol and Unisalute). The contract covers the supply of the server s entire hardware infrastructure, the licenses and also the development of software services for the integration between the contact center and the CRM/ERP applications of the different companies and personalized reporting on the platform activities. Moreover, Telecom Italia won the bid to renew the Data Transmission Network of the Group for about 2,800 offices. The contract is for a period of three years.

· On July 3, 2009, Telecom Italia and 3 Italia executed a co-siting agreement to share access sites to the mobile network relating to both the existing sites and those that will be built in the future. The subject of the agreement is the so-called passive infrastructures: poles, cables, power supply and air-conditioning systems and other civil infrastructures. Maintaining the ownership of their own infrastructures, each operator

will host the mobile stations of their partner with the aim of optimizing network coverage all over the country. The agreement is for three years, is renewable and when fully operational will cover 2,000 sites, ensuring an optimization of investments, a savings of 30% in costs and a reduction in the network development times of each operator.

- In August 2009, Telecom Italia was awarded the LAN 3 Consip Agreement for the supply of equipment to develop the local networks of the Public Administration and the relative services for maintenance, assistance, operations and training of the users. The agreement is for a period of 18 months with a possible extension of another six months with all the Central and Peripheral Administrations of the State, with contracts for periods of 24 or 48 months depending on the estimated maintenance period.

- On September 15, 2009, the Smart Inclusion project was inaugurated at Bambino Gesù Pediatric Hospital in Rome. The project was developed by the Telecom Italia Group with the support of the Ministry of Public Administration and Innovation and with the scientific supervision of CNR-ISOF of Bologna. This is the first initiative in Italy which integrates remote teaching and entertainment and the management of clinical data services on a single technological platform. The project will allow children with long hospital stays to join in social activities by connecting to the outside world in a simple immediate manner (link with the school) and the health staff will have advanced tools available to support the processes for taking care of young patients. On December 12, the Smart Inclusion project was also inaugurated in the Padua Hospital. The project will be extended to another four hospitals by mid-2010.

- On September 23, 2009, Telecom Italia signed an agreement with Movincom, a consortium set up by various businesses in different categories (for example, transportation, parking, insurance and hotels) for the purpose of helping to develop payment services using a mobile handset. The agreement will make it possible for Telecom Italia s customers to purchase a wide range of goods and services offered by businesses belonging to the consortium using a cell phone. Starting in 2010, Telecom Italia will integrate a specific application on the new SIM cards so that purchases of all goods and services offered by Movincom businesses can be made using mobile phones.

- In October 2009, Telecom Italia won two bids to manage ICT infrastructure for the company Terna: The evolution of the intranet network infrastructure for Central and Peripheral Sites and the Supply of specialist equipment and services for the functioning of the Security Operational Center . This important achievement strengthens the relationship between the two companies which are national leaders in their respective markets of TLC and Energy.

- During 2009, partnership agreements were renewed with Confcommercio Imprese per l Italia (about 800,000 members) and Confartigianato Imprese (about 500,000 members). The purpose of the agreements is to gain a better understanding of the needs of member companies, support their activities and introduce technological innovations which simplify the way of doing business. Confcommercio Solutions and Confartigianato Solutions for the Simplified Business are the fruits of these agreements and consist of fixed-line, mobile and ICT services and products bundled according to the specific needs of the member businesses.

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v CUSTOMER AND LINES

The table below sets forth, for the periods indicated, certain statistical data of the Domestic Business Unit:

| | As of and for the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **DOMESTIC FIXED** | | | |
| Fixed-line network connections in Italy at period-end (thousands) | 18,525 | 20,031 | 22,124 |
| Physical accesses (Consumer + Business) at period-end (thousands) | 16,097 | 17,352 | 19,221 |
| Voice pricing plans (thousands) | 5,417 | 5,834 | 6,375 |
| BroadBand accesses in Italy at period-end (thousands) | 8,741 | 8,134 | 7,590 |
| *Of which retail BroadBand accesses (thousands)* | *7,000* | *6,754* | *6,427* |
| Virgilio page views daily average during the year (millions) | 44.7 | 44.8 | 40.4 |
| Virgilio daily average single visitors (millions) | 3.2 | 2.5 | 2.1 |
| **Fixed network infrastructure in Italy:** | | | |
| · access network in copper (millions of km pair) | 110.5 | 109.3 | 106.8 |
| · access and carrier network in optical fiber (millions of km of fiber) | 4.1 | 3.9 | 3.8 |
| **Fixed network infrastructure abroad:** | | | |
| · European backbone (km of fiber) | 55,000 | 55,000 | 55,000 |
| · Mediterranean (km of submarine cable) | 7,000 | 7,000 | 7,000 |
| · South America (km of fiber) | 30,000 | 30,000 | 30,000 |
| **Total traffic:** | | | |
| Minutes of traffic on fixed-line network (billions): | 134.4 | 144.3 | 156.8 |
| · *Domestic traffic* | *115.6* | *125.3* | *140.1* |
| · *International traffic* | *18.8* | *19.0* | *16.7* |
| **DOMESTIC MOBILE** | | | |
| Number of lines at year-end (thousands) | 30,856 | 34,797 | 36,331 |
| *Of which Prepaid lines (thousands)(1)* | *24,398* | *28,660* | *30,834* |
| Change in lines (%) | (11.3) | (4.2) | 12.0 |
| Churn rate(2) | 30.1 | 23.6 | 16.4 |
| Total outgoing traffic per month (millions of minutes) | 2,982 | 3,054 | 2,766 |
| Total outgoing and incoming traffic per month (millions of minutes) | 4,260 | 4,316 | 4,052 |
| Average monthly revenues per line(3) | 20.0 | 20.0 | 22.2 |

(1) Excludes not-human Subscriber Identity Modules (SIM).

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

(3) The values are calculated on the basis of revenues from services (including revenues from prepaid cards and revenues from non-domestic traffic) divided by the average number of lines.

Telecom Italia is one of three mobile operators licensed to provide services using GSM 900 technology in Italy and one of three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS license and providing third-generation telephony services in Italy.

At December 31, 2009 the Telecom Italia Group was one of the world s largest fixed telecommunications operators with approximately 16.1 million physical accesses (consumer and business) in Italy, a decrease of 1.3 million compared to December 31, 2008. The Wholesale customer portfolio reached approximately 6.2 million accesses for telephone services at December 31, 2009, an increase of approximately 1.2 million compared to December 31, 2008. The overall access market was stable compared to December 2008.

Furthermore, the BroadBand portfolio in Italy reached 8.7 million accesses at December 31, 2009 (consisting of 7.0 million retail accesses and 1.7 million wholesale accesses), an increase of 0.6 million accesses compared to December 31, 2008.

In addition, the Telecom Italia Group had approximately 30.8 million mobile telephone lines at December 31, 2009 (34.8 million at December 31, 2008); the reduction compared to December 31, 2008 can be attributed to

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greater selectivity in the sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

v **Main Changes in the Regulatory Framework**

For the main regulatory events which occurred in 2009 that may have an economic impact on Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **Competition**

***The market***

The Italian telecommunications market, a little over ten years on from deregulation, is characterized today by strong competitive pressure both at the retail and the wholesale levels, which has led to a physiological impoverishment of the traditional components of service. In this context, the telecommunications operators (the Telcos) have responded with a strategy centered on the development of innovative services and applications (for example Mobile Broadband, IPTV/Web TV, ICT, Online advertising and Digital Home) to balance the effects of competition and the pressure on prices for traditional services.

The competitive situation for telecommunications, in Italy and at the global level, is further evolving under the effect of the development of convergence between the telecommunications, information technology, media and consumer electronics markets; this phenomenon is causing lateral competition, which extends competition into the converging markets and their reference operators, creating for the telecommunications operators opportunities for growth and at the same time competitive threats. Another important element in the evolution of the competitive scenario is that of the so-called Over The Top operators (for example, Google) characterized by their capacity to compete on many markets in a transversal and global manner.

In particular:

- in Media, the scenario continues to be dominated by the vertically integrated players but with the Web having a growing importance as a complementary distribution platform and therefore with a possible role for the Telcos;
- in Information Technology (where Italy has a level of investment relative to its GDP which is significantly lower than that of the United States or of other European countries), a strengthening of the Telco operators is expected also through partnerships and acquisitions;
- in the Consumer Electronics market, the cell phones with greater functionality (such as the IPhone) distance the relationship between the customer and telecommunications operators, and other terminals, such as the games console, compete with the Telcos for the role of net enabler on the living room screen;

- the Over The Top operators, represent the most significant threat to the Telco s because of their capacity to diversify, their capacity for rapid scale, their disruptive business model (free for the customer and based on advertising) and their intensive use of their knowledge of the customer.

So far as converging markets are concerned, the current positioning of telecommunications operators evidences, to differing degrees according to their respective structural characteristics, a focus on infrastructure services in the IT market, a role as distributor of premium content with IPTV, a significant presence in online advertising and the development of web 2.0 Smartphone applications in the Consumer electronics/devices market.

***Competition in Fixed Telecommunications***

The fixed-line telecommunications market is characterized by strong competition between operators centered on their capacity to innovate service offerings through the introduction of voice/broadband packages (double play) and voice/broadband/IPTV packages (triple play). This evolution is possible due to the competitors shift from an essentially reseller approach (carrier selection/carrier pre-selection for voice services and Wholesale for ADSL) to an approach based on control of infrastructure (Local Loop Unbundling (LLU) and wholesale line rental). There is also an increasingly evident trend of fixed/mobile convergence: many fixed operators are today also MVNOs (Mobile Virtual Network Operators) and offer integrated fixed-mobile services.

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In 2009, there has been a continuation of the migration of customers from fixed telephony to mobile telephony services and to alternative communications solutions (messaging, e-mail, chat etc.). For some years, for both private consumers and small and medium businesses there has been a progressive substitution of the mature traditional voice services with content and value-added services based on the Internet Protocol (IP), the spread of which is favored both by the use of Internet and by changes in customer preferences and by the penetration of broadband and the PC, as well as by the quality of the service.

The competitive scenario in the Italian market for fixed telecommunications is dominated both by Telecom Italia and by a number of operators with differentiated business models and with a focus on differing segments of the market:

- Wind-Infostrada, an integrated fixed-mobile operator focused on the retail mass market segment;
- Fastweb, an operator focused on the positioning as technological leader offering broadband double and triple play packages with high value-added to retail and corporate customers, also offering mobile telephony services as an MVNO with H3G;
- Tiscali, an operator focused on broadband services with dual play packages semplici e convenienti , also has a mobile telephony offering as the MVNO Tiscali Mobile with Tim;
- TeleTu (formerly Tele2, purchased by Vodafone), positioned as price leader with entry-level plans for voice and broadband;
- Vodafone, focused on the 2Play package (Vodafone Station) and on fixed-mobile cross-selling activities;
- BT Italia, focused on business customers and ICT packages, also offering mobile telephony services as an MVNO with Vodafone.

At the end of 2009, fixed accesses in Italy numbered approximately 22.6 million, substantially in line with 2008. The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share of retail voice traffic volumes.

With respect to the Broadband market, at December 31, 2009, broadband fixed-line customers reached a total of approximately 12.3 million with an approximately 54% penetration of fixed accesses. In 2009, growth in fixed-line Broadband suffered a slight decline compared to the changes of the preceding years due to a generalized preference of operators to increase the penetration of flat-rate plans (dual/triple play) with greater value-added rather than to pursue a massive diffusion of free offers. Broadband penetration is driven by the increasing demand for speed and for activation of new over IP services (voice over IP, Content, Social Networking Services, Online Gaming, LAN points, IP Centrex, etc.).

Data transmission services which are the main component of the Top customers market and which are characterized by the re-designing and upgrading of internet accesses with high or very high data transmission capacities and by medium and large sized private data networks, have felt the effects of competition experiencing a contraction in average prices while operators market shares have remained substantial stable.

***Competition in Mobile Telecommunications***

For many years in Italy, the growth in mobile telecommunications substantially offset the decline in revenues from fixed telephony; however, the mobile market has become increasingly saturated and mature in its traditional component of voice services (at December 31, 2009, mobile lines in Italy numbered around 89.2 million, a decline of 3% from 2008 and with a penetration rate of approximately 148% of the population).

Alongside the progressive contraction of traditional voice and messaging services there is, however, significant growth in data and value-added services.

This is the situation of Mobile Broadband which has been in the last two years, and will increasingly be in the medium term future, the main strategic and commercial opportunity for the mobile telecommunications industry, able to offset the erosion in the traditional components of revenues such as voice and messaging. In 2009, in Italy, there was significant growth in mobile broadband customers which at the end of the year numbered approximately 11.3 million, with a penetration rate of 12.7% of mobile lines.

Alongside the established innovative services in their full growth phase, such as Mobile Broadband, there are various other market areas with significant medium term growth potential, for example: Mobile Advertising, Mobile Content (e.g. Social Networking), Mobile Payment and Location Based Services.

The development of the mobile telecommunications market depends therefore on a number of factors, in particular:

- competitive and regulatory pressure on retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telephony products and services (for example, mobile broadband);
- the success/attractiveness of these new technologies.

The competitive situation in the Italian mobile telecommunications market is dominated by Telecom Italia and also by the following infrastructured operators which are focused on different segments of the market or have different strategies:

- Vodafone, strategy/perception as an innovative operator, attentive to the customer and strongly focused on the youth cluster;
- Wind, focus on cost conscious segment with a portfolio of simple plans with immediate benefits for the customer;
- H3G, operator focused on advanced value-added services (VAS) with competitive pricing (for example micro browsing, mobile broadband and mobile content).

Telecom Italia s market share of total mobile lines was 34.2%, down compared to December 31, 2008 (38%).

#### 4.2.2 Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications markets in Brazil through Tim Brasil group which offers primarily mobile telecommunications services using UMTS, GSM and TDMA technologies. The Tim Brasil group is composed of the following companies:

On December 30, 2009, Tim Participações finalized the acquisition of Intelig from JVCO Participações (a subsidiary of the Docas group). Intelig is the domestic and international Brazilian telecommunications operator for long-distance and data transmission services. From an industrial standpoint, the acquisition is important because it will strengthen and complete the existing offering and optimize resources due to the synergies generated by the integration of the two networks. Intelig, in fact, possesses an important fiber optic network (about 15,000 kilometers) found in major Brazilian cities and has its own extensive carrier network (backbone).

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On December 31, 2009, the merger by incorporation of Tim Nordeste S.A. in Tim Celular S.A. was concluded with a view towards the continuation of the process for the simplification of the corporate structure aimed at the rationalization of business activities.

v **KEY FACTORS**

The Tim Brasil group covers an area containing over 169 million of Brazil s 191.5 million inhabitants. Mobile operating subsidiaries have approximately 41.1 million customers located in each of the Brazilian states and in the Federal District. On December 31, 2009, its combined penetration reached approximately 90.2% of the Brazilian population and our combined market share totaled approximately 23.6%.

Since the Tim Brasil group began operating in the Brazilian market, its intention has been to provide its customers with state-of-the-art technology and services. This goal has been achieved through the offer of edge technology, that has allowed convergence between voice services either mobile or fixed , internet access and data transfer. This convergence has been made feasible with recent developments under 3G.

The table below sets forth, for the periods indicated, the number of lines of the Brazil Business Unit:

| | As of and for the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Number of lines at year-end (thousands) | 41,102 | 36,402 | 31,254 |

v **COMMERCIAL DEVELOPMENTS**

In 2009, the Tim Brasil group relaunched its positioning and its sales strategy, which was directed to:

- brand strategy and positioning: the company has designed a communication format centered on three pivotal points: network coverage and quality, attractive rate packages and improved handset portfolios;

- prepaid segment: Tim Brasil improved the attractiveness of the Infinity plan, extending the pay per call concept to long-distance calls and the community concept which counts more than 41 million customers in all the Brazilian states. The Infinity plan offers continuity to the growth of MOU (minutes of use) on a client base that represents more than 50% of the global prepaid base (17 million). Also with the aim of encouraging the use of the service, a prepaid refill incentive has been launched called recarga imperdivel Tim . In order to achieve greater penetration of TIM plans in the competitive environment of certain key markets, TIM launched some special packages under the Infinity plan such as in Rio de Janeiro where the price per minute has been reduced to 0.25 Brazilian reais until the end of 2016;

- business segment: the advertising campaign was created to publicize Tim Empresa Simples (Tim Simple Business), a converging plan in which mobile, fixed and broadband services are included in a single invoice. In September 2009, Liberty Empresas was launched following the use of the community concept, with a monthly charge that gives the right to unlimited traffic ( on net local and long-distance

calls) and national roaming at no additional charge;

· Tim-Chip: beginning July 2009, the clientele was offered the possibility of buying a new cell phone at a higher price, receiving a discount on traffic. The strategy, which shifts the customer s attention from the usual handset subsidy to services, offers the client more options and flexibility. In the fourth quarter of 2009, about 50% of new postpaid customers were acquired in this manner;

· handset portfolio expansion with highly innovative features: products were launched such as Samsung Galaxy (the first cell phone with Android Google s mobile software) and the IPhone 3G. Tim is the leader in IPhone sales in the Brazilian market;

· Data segment: Tim Brasil continues with incentives to promote data traffic use by its customers. In the fourth quarter of 2009, the most attractive package of the Brazilian market was launched in which 100 MB of data costs 9.90 Brazilian reais. In December 2009, the TIM Wi-Fi plan was launched for internet access in public hot spots based on various time frames: 24 hours, 7 days or unlimited access for a monthly subscriber fee of 23.90 Brazilian reais.

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v **Marketing and Distribution**

Our services are marketed through the largest distribution network in Brazil with over 8,957 points of sale, of which approximately 60 are own stores. In addition, we have over 365,543 recharging points for prepaid service. We market our services through a network of stores, including general retail stores that sell our mobile telecommunications services and related goods on a non-exclusive basis, and dedicated outlets that sell our services and goods exclusively. We, however, intend to focus on sales through our exclusive stores and franchises as opposed to general retail stores where subsidies often generate losses. Sales of our products and services are offered by our sales personnel, as well as by authorized dealers. Customers with debit cards that use Banco 24Horas (ATMs), as well as customers using Visa, MasterCard or Diners credit cards are able to recharge their prepaid phones straight from their mobile handsets.

v **Main Changes in the Regulatory Framework**

For the main regulatory developments which occurred in 2009 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **Competition**

On December 22, 2009, Anatel launched the public consultation ( CP-50 ) aimed at establishing criteria and procedures for the introduction of MVNOs (Mobile Virtual Network Operators) in the Brazilian market. The virtual mobile operator is authorized to offer mobile communications services without obtaining a license for the radio spectrum and using the platforms and/or infrastructures of an existing mobile operator.

The CP-50 proposes two models of virtual operator, in each case based on commercial agreements:

· Credentialed MVNO : a service provider which contributes to value creation and distribution of the services of the original mobile operator.

· Authorized MVNO : a telecommunications operator in the full sense (in terms of rights and obligations) which obtains authorization to provide services based on an agreement with an existing mobile operator for the shared use of infrastructure.

The public consultation process provided the submission to Anatel up until March 22, 2010 of any comments on the proposal, and the beginning of the project is expected by July 2010.

v **Other Relevant Information**

***Acquisition of Intelig Telecomunicações Ltda***

On April 16, 2009, agreements were sealed between the Tim Brasil group and the Docas group for the indirect acquisition of control of Intelig Telecomunicações Ltda, the domestic and international Brazilian telecommunications operator for long-distance and data transmission, through the merger by incorporation of the parent of Intelig (Holdco Participaçoes Ltda) in Tim Participações S.A..

On August 11, 2009, Tim Brasil received approval for the acquisition project from Anatel, with a deadline of 18 months so that identical licenses could be eliminated in some of their geographic areas.

On December 30, 2009, with the special general shareholders meeting, Tim Participações and the Docas group (the parent of JVCO Participações) finalized the acquisition process for 100% of Intelig shares.

As a consequence, Tim Participações issued 127.3 million new shares (43.4 million ordinary shares and 83.9 million preferred shares) allocated to JVCO Participações and as of December 31, 2009 fully consolidated Intelig into its consolidated financial statements.

#### 4.2.3 MEDIA

In 2008, the Telecom Italia Media group changed its organizational structure to establish a focused and specific presence over La7 and MTV as a result of the increase in the number of channels and products available on

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several distribution platforms (Free to Air, Web, satellite and Mobile), as well as the different editorial content and programming of La7 and MTV. It was therefore decided to more visibly distinguish the attributions of responsibility between the two companies; consequently, beginning January 1, 2009, the manner of presenting the separate income statement results and financial position was revised so that three specific business segments have been identified as follows:

- **Telecom Italia Media S.p.A.**: activities relating to La7 and the Telecom Italia Group s Digital Content which develops and creates content for the IPTV, DVB-H and Web platforms;

- **MTV Group**: activities relating to MTV broadcasting, the Playmaker production unit, the musical platforms via satellite, the Nickelodeon and Comedy Central satellite channels, MTV Mobile and multimedia (Web);

- **Network operator (TIMB Telecom Italia Media Broadcasting)**: assets for the management of the Group s analog and digital networks and hosting service on digital multiplexes.

On December 1, 2008, Telecom Italia Media S.p.A. sold the Pay-per-View business segment and, in May 2009, as part of the actions designed to regain profitability as set out in the Group s Industrial Plan, sold a 60% stake in Telecom Media News which controls the APCom press agency, one of the major operators in primary national news, to the company Sviluppo Programmi Editoriali S.p.A. (E.P.S. group).

As of December 31, 2009, the Business Unit was organized as follows:

The table below sets forth, for the periods indicated, certain statistical data of the Media Business Unit:

| | As of and for the years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Media** | | | |
| La 7 audience share Free to Air (analog mode) (average during the period, in %) | 3.0 | 3.1 | 3.0 |
| La 7 audience share Free to Air (analog mode) (average of the last month of the period, in %) | 2.9 | 3.0 | 3.1 |

v **Main Changes in the Regulatory Framework**

For the main regulatory events which occurred in 2009 that may have an economic impact on Media Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

#### 4.2.4 OLIVETTI

The Olivetti group mainly offers products and services relating to digital printing systems and ink-jet office products, specialized applications for the banking field and commerce and information systems managing forecast games, electronic voting and e-government. The group also develops and manufactures products using silicon technology (ink-jet print heads and Micro Electro-Mechanical Systems (MEMS) and industrial applications) and is

also present in the field of document services (digital management of company documents), caring services (specialist help-desk) and technical assistance. Starting from the second half of 2009, activities were undertaken to expand and diversify the offerings of the Information Technology sector by concentrating on the development of software solutions and applications services for businesses and public administrations and also qualifying devices.

The market of the Business Unit is focused mainly in Europe, Asia and South America.

As of December 31, 2009, the Olivetti Business Unit was organized as follows (the main companies are indicated):

(*) Liquidated on January 28, 2010.

#### 4.2.5 International Investments

v **BBNed Group**

The BBNed group consists of the parent, BBNed N.V., and its two subsidiaries, BBeyond B.V. and InterNLnet B.V..

BBNed offers a complete portfolio of high-quality, reliable DSL broadband services to Internet Service Providers, Applications Service Providers, retail business customers and other telecommunications companies in The Netherlands. BBNed provides wholesale broadband access to third parties via its proprietary unbundled DSL network. In 2007, in order to expand its business portfolio, BBNed entered the retail residential Broadband access market (ADSL and fiber) through the acquisition of the InterNlnet operator completed in July 2007. Furthermore, in August 2007, BBNed launched nationwide its retail Alice ADSL dual play offering, bringing Dutch customers connections with speeds up to 20 Mbit/s. As of 31 December 2009, there were 45 thousand Alice customers.

During 2009, the Dutch DSL market featured a steady recourse to promotions, with the development, albeit limited, of the penetration of fiber accesses.

Cable operators responded with aggressive sales policies also making the most of the introduction of EURODocsis 3.0 technology which allows greater connection speed compared to previous offers.

In this competitive scenario, BBNed maintained its positioning as an active operator in the different markets, retail and wholesale, and customer segments (the business segment with the BBeyond brand and the consumer segment with the Alice and InterNLnet brands), taking action on:

- technological evolution of network infrastructures and rationalization of IT systems;
- improving the margins of rate plans;
- customer loyalty and retention activities; and
- operating efficiency, rigid control over costs and the assessment of the return on investments.

v **Other Investments Accounted for using the Equity Method**

· **Telecom Argentina Group**

Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora hold a 13.97% stake in the Telecom Argentina group.

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The group operates in the sectors of fixed and mobile telecommunications, internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

At December 31, 2009, land lines in service (including installed public telephones) were about 4,364,000, a slight increase compared to December 31, 2008 (4,299,000).

With respect to BroadBand, accesses totaled approximately 1,214,000, growing about 18% compared to the end of 2008 (1,032,000).

In the mobile business, the customer base of the group reached approximately 16,257,000 customers at December 31, 2009 (of which, more than 11% in Paraguay), with an increase of more than 13% compared to year-end 2008 (14,375,000). The number of postpaid customers increased by 4% compared to the end of December 2008, and continues to account for about 28% of the total customer base. Migration of mobile customers from TDMA, which was still used by only a small number in Paraguay at December 31, 2008, to GSM technology was completed during the period and is now used by 100% of customers.

For details about the current status of legal and regulatory proceedings relating to Telecom Argentina please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein and Item 8. Financial Information. 8.2 Legal Proceedings which updated certain proceedings disclosed in the Consolidated Financial Statements.

· **ETECSA**

Through Telecom Italia International we hold a 27% interest in ETECSA, the monopoly provider of fixed-line and mobile telecommunications services, Internet and data transmission in Cuba.

Old Telecom Italia obtained an initial stake of 12.25% in ETECSA in 1995, when, prior to its privatization by the Italian government, Old Telecom Italia acquired, for approximately U.S.$291 million, a 25% stake in a Mexican telecommunications company which owned 49% of ETECSA. In February 1997, Old Telecom Italia converted its indirect stake in ETECSA into a direct investment and increased its interest to 29.29%. The acquisition price for such further 17.04% stake in ETECSA was U.S.$291.6 million. In connection with the merger of the local mobile operators into ETECSA to form an integrated provider of telecommunications services we participated in a series of capital increases proportionate to our share ownership.

These capital increases occurred during 2003 and through 2004; during this period we invested an additional U.S.$41.3 million in ETECSA through capitalization of dividends paid by ETECSA and, following these capital increases and the mergers, we now own 27%. The other shareholders in the company include the Cuban government which controls 51% of the company and four other Cuban shareholders.

In addition to our shareholding in ETECSA Telecom Italia International is a party to a shareholders agreement pursuant to which it has the right to designate certain senior executive officers and a majority of the board of directors of ETECSA on alternate years.

In addition to these governance arrangements, we entered into agreements to provide certain technical assistance to ETECSA with respect to its fixed line and wireless services.

In return for these services we received annual fees of 692,000 euros (for fixed line technical assistance) and 996,562 euros (for mobile technical assistance) under each agreement respectively and certain other fees for specific services provided equal to 1,385,000 euros. The level of the fees earned over the last two years is set forth in Note Related Party Transactions of the Notes to our 2009 Consolidated Financial Statements included elsewhere herein. The technical agreement with respect to fixed line services, expired at the end of 2009, has been renewed for the period 2010-2011 and the technical agreement with respect to wireless services will expired at the end of 2011.

As we own only 27% of ETECSA we account for its results under the equity method. For further details see Note Other Non-Current Assets of the Notes to our 2009 Consolidated Financial Statements included elsewhere herein.

At December 31, 2009, the number of land lines in service (also including installed public telephones) was approximately 1,119,700, a slight increase compared to December 31, 2008 (1,088,100). Of the lines in service, 51,900 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in non-convertible Cuban pesos. With a market that is still of modest proportions, at December 31, 2009, the number of Internet and data customers has reached 27,400 accesses, almost 6% higher than at year-end 2008 (25,800 accesses).

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In the mobile business, the customer base exceeds 621,100 users at December 31, 2009, an increase of more than 87% compared to December 31, 2008 (331,700 units). The number of customers with postpaid contracts constitutes almost 95% of customers base and is equal to 589,600 (303,600 at December 31, 2008). The performance for the year benefits from the considerable reduction in activation charges which occurred on December 11, 2008 and May 18, 2009.

We do not believe that our arrangements with, and investments in, Cuba are material to the results of operations or financial condition of the Telecom Italia Group, taken as a whole.

#### 4.2.6 COMPETITION

We face domestic competition in all of our businesses. Competition continues to have an adverse effect on our revenues as it resulted in lower tariffs for many of our products and services as well as the introduction of flat-rate pricing plans which have been used to enhance retention efforts but at the same time reducing revenues from such customers.

For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the Telecom Italia Group 4.2.1 Domestic and Item 4. Information on the Telecom Italia Group 4.2.2 Brazil .

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Item 4. Information On The Telecom Italia Group Regulation

## 4.3 REGULATION

### The E.U. regulatory framework

Business undertaken by Telecom Italia in the European Union is subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and opinions. As such, as a member of the EU, Italy is required to implement directives issued by the EU, which directives may take effect automatically on a member state. Regulations adopted at the EU level also have general application and are binding and directly applicable on EU member states. Recommendations, on the other hand, are not legally binding although politically important.

The European Commission began opening the telecommunications market to competition with the adoption of directives in the late 1980s and early 1990s. These liberalization measures culminated in Italy, as well as in all the main member States of the EU, with the opening of competition in 1998 of public voice telephony and public network infrastructure.

The 1998 framework was reviewed when growing convergence between telecoms, broadcasting and information technology meant the rules had to be adapted. A new EU Regulatory Framework was adopted in 2002, covering all forms of fixed and wireless telecoms, data transmission and broadcasting and made up of a package of legal instruments, the most relevant of which are five Directives concerning the following topics: the common regulatory framework; access and interconnection; the authorization regime; the universal service and users rights; privacy and data protection.

A Recommendation adopted in February 2003, on relevant product and service markets susceptible to ex ante regulation, complemented the set of legal instruments relevant for the scope of the electronic communications market regulation. In December 2007, the European Commission amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible of ex-ante regulation to the following seven. In particular: at Retail level: access at a fixed location (market 1); at Wholesale level: call origination at a fixed location (market 2); call termination at a fixed location (market 3): wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale BroadBand access (market 5); wholesale terminating segments of leased lines (market 6); voice call termination on mobile networks (market 7).

The EU regulatory framework requires that market analyses be carried out by the National Regulatory Authorities (**NRA**s, in Italy **AGCom**) before regulation is imposed and that appropriate obligations are imposed on individual operators determined as having significant market power (SMP) according to specific EU guidelines. A company is deemed to have SMP if, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers. One of the criteria adopted to identify SMP, according to the EU Guidelines, is the operator s market share exceeding 50%.

The market analyses carried out by NRAs are subject to the scrutiny of the EU Commission which, to a certain extent, can challenge the NRAs findings, having a veto power about market definition and identification of SMP operators but not about the choice of remedies.

The EU legal framework has been recently updated. In November 2007, the Commission adopted review proposals of the five directives defining the regulatory principles for the sector (i.e. the Framework, Access, Authorisation, Universal Service and E-Privacy directives), with the aim to define the new European regulatory framework for the upcoming years.

New EU telecoms rules have officially become EU law following their publication in the Official Journal of the European Union of December 18, 2009. The Reform Package is composed of the Better Regulation Directive (Directive 2009/140/EC, amending the Framework , Access and Authorization directives) and the Citizens Rights Directive (Directive 2009/136/EC amending the Universal Service and E-Pri directives and the Regulation 2006/2004 on Consumer Protection Cooperation) that will need to be transposed into national laws of the 27 EU Member States by May, 25 2011 and by the Regulation which is directly applicable establishing the new European Telecoms Authority called Body of European Regulators for Electronic Communications (**BEREC**) .

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**Telecommunication Regulatory Framework in Italy**

The legal basis for the electronic communications sector is as follows:

- Law 36 of February 22, 2001, regarding protection from exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which established Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated at frequencies between 100 kHz and 300 GHz ;

- the Electronic Communications Code ( **ECC** ), Legislative Decree 259 of August 1, 2003, which incorporated into national law the EU directives of the 99 Review with regard to electronic communications networks and services (the EU directives on Access , Authorization , Framework and Universal Service );

- Data Protection Code (Legislative Decree No. 196/2003), modified by Law 166 of November 20, 2009;

- the Consolidation Act on Radio-Television (Legislative Decree 177 of July 31, 2005) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;

- Legislative Decree 206 of September 6, 2005 ( **Consumer Code** );

- Legislative Decree 262 of October 3, 2006, which contains Urgent measures with regard to tax and financial matters and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offenses, a generalized increase in the fines for each sanction and the elimination of the institution of the partial cash settlements of fines;

- Decree Law 7 of January 31, 2007, (converted into law, with modifications, by Article 1 of Law 40, dated April 2, 2007) containing urgent measures for the protection of consumers, promotion of competition, development of economic activities which, for the electronic communications sector, abolished top-up charges and prohibited the expiry of phone traffic on prepaid phone cards;

- Legislative Decree 109 of May 30, 2008, for the incorporation into national law of the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/EC;

- Law 69 of June 18, 2009, containing in Article 1 BroadBand measures for the administrative simplification of the procedures for the installation and development of optical fiber networks.

Furthermore, the ECC confirmed the responsibilities attributed under previous legislation to the Ministry of Communications and AGCom:

- the Ministry is responsible for State functions and services in respect of postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. The functions of

the Ministry of Communications and its resources have been transferred to the Ministry of Economic Development since May 2008 (Decree Law 85 May 16, 2008);

· AGCom, established by Law 249 of July 31, 1997, is an independent regulatory authority and guarantor. It must report on its operations to Parliament, which established its powers, defined its by-0laws and elected its members. AGCom has the dual responsibility of ensuring that there is fair competition among the operators on the market and protecting consumers.

#### 4.3.1 Telecommunication Regulation in Italy

***Telecom Italia Undertakings***

In July 2008, Telecom Italia proposed to AGCom certain undertakings relating to its access network ( **Undertakings** ) that would integrate and strengthen the existing obligations of non-discrimination between Telecom Italia Retail and other operators in the provision of wholesale access network services imposed on Telecom Italia by AGCom since 2002.

With the Decision n. 718/08/CONS AGCom approved Telecom Italia Undertakings which are divided into fourteen main groups.

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Overall, the Undertakings pursue four main goals:

- to offer additional guarantees of equal treatment between Telecom s commercial functions and other electronic communications operators that purchase wholesale access services from Telecom Italia ( **Operators** );
- to provide benefits to Operators and final users, through the qualitative development and improvement of the fixed access network and of related services;
- to make the evolution of Telecom Italia s fixed access network more transparent for the Operators;
- to ensure the maintaining of competitive conditions in the migration towards new generation networks.

Following the AGCom approval of the Undertakings, a number of sanction proceedings imposed on Telecom Italia were suspended and should be closed when the actual fulfillment of the Undertakings is assessed.

At the beginning of 2008 Telecom Italia created the Open Access department, a separate business unit focusing its activities on the Undertakings implementation. In order to ensure internal-external equal treatment its adopted actions have focused on three main areas of intervention:

- technical-organizational: solutions for the improvement of internal processes for delivery and assurance of SMP services have been adopted;
- cultural-behavioral: a Code of Conduct has been defined and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment;
- economic-regulatory: the drafting of service contracts and transfer charge for the implementation of the economical treatment equality is underway.

The Undertakings implementation, their complexity and their impact on the stakeholders system, has required the creation of a governance system where each body has a specific role.

In particular, the following bodies have been created: an independent body (the Supervisory Board) and the Undertakings Monitoring Group for the monitoring of the working progress (Office of Telecommunications Adjudicator Italia **OTA Italia** ), whose mission is to prevent and resolve disputes between operators and the Next Generation Network Committee submitting proposed solutions on technical, organizational and economic issues for the transition to NGN networks.

As planned, Telecom Italia has fully implemented, as of March 31, 2010, technical Undertakings concerning the new delivery process for SMP services, additional procedures for the management of co-location services, new procedures for the management of wholesale users and a performance monitoring system for SMP services.

Positive judgment on the implementation by Telecom Italia of the Undertakings to date has been expressed by the Supervisory Broad in its first Annual Report.

***Market analysis***

During 2006 and 2007, AGCom concluded the first round of analyses of the markets of the electronic communications sector, as identified by the EC 2003 Recommendation, and designated Telecom Italia as SMP in the mobile voice call termination market and in all fixed markets. As result of these findings AGCom introduced regulatory measures depending on the specific market failure identified: access to network, carrier selection and pre-selection, transparency and non discrimination, including publication of Reference Offer, information for end users, advance notification to AGCom of new tariffs or change of existing ones, price control including cost orientation, price/network cap and price tests, cost accounting and accounting separation.

Since December 2007, AGCom has opened various proceedings to carry out the second round of relevant markets analyses to determine whether to maintain, amend or withdraw the obligations on Telecom Italia in force. Also, markets, not included in the revised Recommendation, with remedies in place, have been re-assessed in order to justify either the withdrawal or the keeping of regulation. Therefore AGCom reviewed more than 7 markets in its second round market analyses. During 2008, AGCom concluded the market analyses of the wholesale mobile

markets (call termination, and access and call origination, while, as to international roaming the EU Regulation is applied and AGCom has not reviewed this market). The market analyses proceedings, for the fixed markets, suspended until the AGCom approval of Telecom Italia s Undertakings, are almost completed and they should be concluded by 2010.

The major developments in 2009 regarding markets in the electronic communications sector are described below.

· ***Retail fixed markets***

As a result of the first round of fixed retail market analysis concluded in 2006, AGCom imposed on Telecom Italia as SMP operator, regulatory obligations, including a Price Cap mechanism and price control.

In particular, the retail fixed regulated markets were as follows: access to the public telephone network provided at a fixed location for residential and business customers (markets 1 and 2); local, national and fixed-mobile services markets retention component only for residential and non-residential customers (markets 3 and 5, removed from the revised 2007 Recommendation); international telephone services, for residential and non-residential customers, provided at a fixed location (markets 4 and 6, removed from the revised 2007 Recommendation); leased lines market (market 7, removed from the revised 2007 Recommendation).

At the end of 2009, AGCom concluded the second round analyses of the international calls market and of the minimum set leased lines market and issued decisions to deregulate both such retail markets withdrawing all ex ante obligations for Telecom Italia from 2010.

During 2009, AGCom also concluded the second round analyses of the retail and wholesale access markets, where it found lack of competition and designated Telecom Italia as SMP. In December 2009, the AGCom issued decision 731/09/CONS setting out the remedies to be imposed on Telecom Italia, including the Telecom Italia Undertakings.

As to the retail access market, the AGCom reduced regulatory constraints removing, from 2010, the price cap mechanism used for controlling residential and business subscriber monthly fees, which are now subject only to a price test (currently under review) to ensure replicability by an efficient OLO. At the same time, AGCom maintained the obligation to notify prices and conditions 30 days in advance of the commercial launch (instead of the previous 60 days), but a clause of tacit consent at the end of the notice period has been introduced. As for bundling services, the previous prohibition has been withdrawn as a consequence of the diffusion of the Telecom Italia s WLR offer.

AGCom carried over Telecom Italia s obligation to provide WLR service, only in the areas where disaggregated access services are not offered, with a price calculated according to the Network Cap method, for the period 2010-2012, based on a BU-LRIC model, instead of the previous retail-minus regime.

With reference to the retail national calls markets, with Decision 95/10/CONS, of March 25, 2010, published in the Official Journal of April 9, 2010, AGCom has launched a public consultation on the analysis of the local, national and fixed-mobile telephony services markets for residential and business subscribers. The draft decision under consultation notified also to the EU Commission provides for the withdrawal of the regulatory obligations imposed on Telecom Italia in the previous round of market analysis (such as price cap). The removal of some of the obligations currently in force will be effective after six months from the publication of the final decision (transitory period). AGCom proposes also to introduce ex-post replicability tests to assess the Telecom Italia s offers. The methodologies to implement the replicability tests are under review within a specific proceeding and a public consultation on that issue closed in mid February 2010 (Decision 667/09/CONS).

Beginning February 1, 2009, Telecom Italia raised the monthly subscriber charge for its residential clients from 12.14 euro to 13.40 euro. This increase was authorized by AGCom with Decision 719/08/CONS published in the Official Journal of January, 7, 2009.

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Following AGCom s approval of the increase in the residential subscriber charge, the price of the WLR subscriber charge of the POTS line was also increased on February 1, 2009 from 10.68 euro/month to 11.79 euro/month (excluding VAT).

· ***Wholesale fixed markets***

The first round of market analyses for fixed wholesale markets was concluded in 2006. In particular, the markets were as follows: Call origination (market 8); Call termination (market 9); Transit services (market 10, removed from the revised 2007 Recommendation); Unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing BroadBand and voice services (market 11); BroadBand access (market 12); Terminating segments of leased lines (market 13); Trunk segments of leased lines (market 14 removed from the revised Recommendation).

As a result, AGCom imposed on Telecom Italia, as SMP operator, regulatory measures including price control in the form of a network cap (except for the wholesale BroadBand access market).

The network cap mechanism has been applied to calculate the prices of wholesale call origination, termination and transit services and of unbundled network-access services (i.e. Local Loop Unbundling LLU and Shared Access). This mechanism has also applied to circuits, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance circuit segments.

With reference to the Unbundled access, in March 2009 AGCom approved the price for LLU services for the year 2009 on the basis of cost orientation, as the network cap expired at the end of 2007, starting from January 1, 2009. The 2009 LLU Reference Offer increases the monthly fee to 8.49 Euro/month with an increase of 0.85 Euro/month compared to 2008.

With reference to BroadBand access, in November 2009 AGCom approved the 2009 Reference Offer for bitstream services with a price decrease as of January 1, 2009 of the ADSL access fee (from 8.5 euro/month for the year 2008 to 8.0 euro/month for the year 2009), of the backhaul bandwidth fee (average of 9% for ATM and 44% for Ethernet) and of *una tantum* contributions. The prices of the symmetric accesses for the year 2009 remained unchanged in respect to the year 2008.

Following the conclusion of the second round of market analyses of the wholesale Access market, in December 2009, with the Decision 731/09/CONS, AGCom confirmed the current regulatory system relative to the wholesale access obligations to the copper infrastructure (unbundling and bitstream), whereas, with regard to the determination of prices, it reintroduced for the period 2010-2012 a network cap mechanism, based on a BU-LRIC model, currently under consultation with the Decision 121/10/CONS (see below). Furthermore, AGCom introduced some obligations for the access to NGN infrastructures and, in particular, introduced the access obligation to ducts and dark fiber at fair and reasonable prices under AGCom supervision and the bitstream access on FTTX (implementation conditions to be defined after the publication of the EC Recommendation on NGN and Guidelines by the NGN Italian Committee). Measures related to the next generation network should be adopted in 2010.

On April 27, 2010, with the Decision 121/10/CONS, AGCom launched a public consultation on the definition of a new cost model for the determination of the tariffs to be applied for the period May 1, 2010 December, 31 2012 to the following wholesale services: unbundling,

bitstream and WLR and on the calculation of the Weighted Average Cost of Capital (WACC) value for the same period. The proposed values have been derived from the new BU-LRIC cost model and, in particular, for ULL service, the AGCom has proposed the following monthly fees: 8.70 euro/month as of May 1, 2010; 9.26 euro/month as of January 1, 2011; 9.67 euro/month as of January 1, 2012. Those values, under consultation, are however subject to the final verification by AGCom of the compliance of two conditions: the quality improvement of Telecom Italia s copper network and the upgrading of the access network in the prospect of new generation networks. As far as the WACC to be applied to the Telecom Italia wholesale fixed line services, the proposed value is 9.36 %.

With respect to migration between operators, AGCom has revised fixed-line customer migration rules, substantially reducing migration times (which should not take more than ten working days, as of November 2009, to be further reduced to five days as of March 2010, in particular with reference to the so called Phase 2 of the process where the donating operator verifies the recipient s migration request). Moreover, in cases of unrequested migration, the user will have the right to re-establish, free of charge, the previous configuration

within five working days. Finally, in order to prevent activation of services not requested by retail customers, fixed-line operators must introduce by March 1, 2010 an individual security code. The code must be provided to the customer when the client signs the contract for the access service.

With reference to call termination, in May 2008, AGCom adopted a Decision setting a new cost accounting model and a gradual drop from 2007 to 2010 of the termination rates for alternative network operators which should lead to symmetric termination rates with Telecom Italia by July 2010 (at the maximum level of 0.057, for SGT). In July 2008, AGCom designated additional network operators as having SMP in the wholesale market for fixed call termination, imposing on the bigger infrastructure-based alternative operators access and non discrimination and price control obligations.

With respect to Telecom Italia, wholesale tariffs for call origination, termination and transit, the network cap mechanism, imposed following the first round of market analyses on Telecom Italia, expired at the end of 2009. AGCom has concluded the second round market analyses for all those markets and in particular for origination and termination services in the fixed network with Decision 179/10/CONS of April 28, 2010, has introduced a BU-LRIC model, as required by the Commission Recommendation, for the definition of termination prices for the year 2012. In the same Decision, AGCom has also provided the new wholesale tariffs for the year 2010, and for the year 2011 the prices will be defined at an efficient cost level on the basis of 2007 cost accounting data. All the prices provided for call origination are equal to the ones for call termination. AGCom also confirmed its previous decision no. 251/08/CONS to impose symmetric call termination rates between Telecom Italia and infrastructured alternative operators, as of July 1, 2010, at Telecom Italia s SGT price level.

With respect to transit services, with Decision 180/10/CONS of April 28, 2010, AGCom has identified the two following markets: 1. Local conveyance and Transit market (it includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service) and 2. National conveyance and Transit market (it includes transit services between two ore more switches located in different telephone districts, also when provided jointly with the originating or terminating service). While a withdrawal of the existing obligations has been provided for the national conveyance and transit service market, for the local conveyance and transit market AGCom has maintained the regulation.

With reference to the wholesale markets for trunk segments of leased lines and for terminating segments of leased lines, AGCom, with Decision 2/10/CONS of January 2010, found the market for trunk services competitive and decided to remove all the ex ante obligations. As to the terminating services market, AGCom defined the following two separate markets: A) Circuits provided between a Telecom Italia node and end user s premises; B) Circuits provided between a Telecom Italia node and a mobile operator s base station and decided to deregulate such market B, removing existing ex ante obligations from December 31, 2010. AGCom decided instead to maintain SMP regulation for Telecom Italia in the wholesale market for terminating segments of leased lines between a Telecom Italia node and the end user s premises (market A) keeping in place regulation under a network cap for the years 2010-2012. The starting values are the prices of Telecom Italia Reference Offers for the year 2009, approved by AGCom (published on February 11, 2010).

· ***Mobile markets***

AGCom has concluded the second round of analyses of the mobile markets.

With reference to the wholesale market for access and call origination on mobile networks, AGCom confirmed, in February 2009, that the analyzed market does not warrant ex ante regulation.

With reference to the wholesale market for voice call termination on mobile networks, AGCom adopted a Decision (n. 667/08/CONS) in November 2008, which provides a four year gradual decline of tariffs setting the Maximum Termination Rate (**MTR**) for each SMP Mobile Network Operator and will eliminate the current asymmetry with the third entrant in 2011 (5.3 cent/min) and with the last entrant in 2012 (4.5 cent/min). In the same Decision, AGCom also stated that it would develop, in 2009, and submit to public consultation a new cost model for MTRs, taking into account the EU Recommendation on the regulation of termination rates (approved in May 2009). After the new cost model is ready, AGCom could revise, with a new market analyses, the MTRs set by the above mentioned decision. It is currently provided that such changes would not be retroactive. Procedure for a BU-LRIC model development for MTR has been launched and should end in early 2011.

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As of July 1, 2009, Telecom Italia reduced its termination rates in compliance with the above mentioned Decision which set, for the first year of the glide path, a termination charge of 7,70 eurocents/min. for Telecom Italia and Vodafone, 8,70 eurocents/min. for the third player Wind and 11,0 eurocents/min. for the latest entrant H3G.

As a result of the change in the mobile termination prices, Telecom Italia gave customers, from July 1, 2009, a reduction in the cost of calls from a land line telephone to all mobile telephone operators, diversified according to the corresponding reductions in the mobile termination prices.

**International roaming**

The EC Regulation on international roaming, approved by the European Parliament and the Council in June 2007, introduced, for roaming calls within the EU (extended to European Economic Area countries), for a three year period, the following measures:

- an average wholesale price cap for outgoing calls;
- a price cap for maximum retail prices for outgoing and incoming calls ( **Euro-tariff** ).

In June 2009, the EU Parliament and Council adopted a new Regulation (n. 544/2009) modifying the previous one. It provides for further progressive reduction of prices for voice call (retail and wholesale) and sets maximum prices also for SMS (at retail and wholesale level) and data (at wholesale level), to be applied within the 27 Member States as of July 2009. The new Regulation has also provided for stricter transparency obligations on data (retail) such as the introduction of a cut off limit, from March 2010, in order to prevent the bill shock . By March 1, 2010, customers need to make a deliberate choice in order to benefit from a cut-off limit (opt-in phase, implemented by Telecom Italia as of March 1, 2010). From July 2010, customers will have the cut-off limit by default.

The new rules will apply until the summer 2012. The EU Commission will review the regulation by June 2011.

***Mobile messaging and data services***

AGCom and the Competition Authority concluded, in May 2009, a joint investigation on SMS, MMS and mobile data without providing any regulatory intervention but inviting the operators to set retail and wholesale prices consistently with the maximum prices set by the EU roaming Regulation and pointing out the need for more transparency. Following the investigations by the Authorities and by the Government, mobile operators committed to voluntarily agree to a retail price cap for SMS at the level of the International roaming EU Regulation (13,0 cent/SMS, VAT included). In particular, Telecom Italia has offered to its customer base, since early 2010, a new tariff plan with SMS prices in line with international roaming and a voice per second billing without call set up.

In the Official Journal of March 2, 2010, Decision 696/09/CONS has been published launching a Public consultation on a draft decision concerning the harmonization measures with the principles of the EU Regulation on International Roaming and the consumers protection. AGCom, taking note of the commitments offered by operators as to the SMS tariffs, proposes a draft decision aimed at extending the measures introduced by the EU Roaming Regulation also at national level, with particular reference to the cut-off safeguard thresholds.

***Mobile Number Portability and Pre-paid residual credit***

In November 2009, the measure introduced by AGCom with Decision 78/08/CIR published in December 2008, become effective which sets the new rules for Mobile Number Portability (MNP). AGCom cancelled the inter-operator charge, simplified the procedures and reduced the inter-operator time for porting the number from five to three working days. AGCom s decision also forbids customers from cancelling MNP orders. In August 2009, the obligation of allowing the transfer of residual credit in case of mobile number portability became effective.

***Spectrum issues***

In October 2008, AGCom issued a Decision dealing with the procedure for the re-assignment and extension of the use of 900 MHz (the so-called refarming, *i.e.* the possibility that the 900 and 1800 MHz frequency band can be re-organized and re-used for the development of 3G mobile systems 3G/IMT 2000-UMTS or of other possible

technologies, equivalent and compatible according to the relevant applicable regulation) and the re-assignment of the 3 blocks of 2x5 MHz in the 2100 MHz band, returned to the Ministry by an UMTS operator who never entered the market (IPSE 2000). In particular:

- ***900 MHz frequency band***. The existing GSM operators can obtain the assignment of a whole number of adjacent nationwide blocks of 5 MHz up to a maximum of 25 MHz for the 900 MHz and 1800 MHz band, with no more than 10 in the 900 MHz band.

- In February 2009, the Ministry approved the plan submitted by Telecom Italia, Vodafone and Wind for the re-assignment of the 900 MHz band. The plan foresees two phases. The first phase which ended on November 2009, related to the re-organization of the 900 MHz band. The second phase to run between September 2011 and December 2013 will concern the release of one 5 MHz block to be assigned to the 3G only mobile operators. This block should be used for 3G technologies with the introduction of roaming obligations.

  After the approval, in July 2009, of the EC directive repealing the GSM Directive of 1987- published in the EU Official Journal on October 16, 2009, the authorization for refarming will be granted by the Ministry, following AGCom s advice, to the existing GSM operators, on request, if they are ready to activate an UMTS carrier in the GSM 900 MHz band on a part of the national territory including at least 20% of the population.

- ***2100 MHz frequency band***. In June 2009, 3 blocks of 2x5 MHz were assigned, through a competitive selection procedure, for the offer of 3G services. Telecom Italia, Vodafone and Wind presented offers for 1 block each starting from the minimum value. Therefore there was no auction and the 3 blocks were assigned to the aforementioned operators. In particular, Telecom Italia paid 88,782,000.00 euros, Vodafone 90,210,000.00 euros and Wind 88,781,500.00 euros. The right of use has been granted to Telecom Italia by the Ministry for Economic Development on September 8, 2009.

***New numbering plan***

In July 2008, AGCom issued a Decision concerning the review of the national numbering plan for telecommunication sector. Main modifications concern new rules of network internal services numbering, introducing specific blocks for premium services mainly related to SMS/MMS data services, the introduction of new premium services numbering and of clearer numbering-premium services categories association, the revision of price thresholds of premium services and the updating of nomadic voice communication services, fixed-mobile convergent services and mobile virtual network operators numbering. In addition, the pan-European new social services numbering (i.e. 116XYZ codes) has been introduced.

With Decision 2/10/CIR, published on March 8, 2010, AGCom launched a public consultation (concluded on April 7, 2010) on its proposal to amend the National Numbering Plan. The most important issue concerns the possibility to assign rights of use of numbers to mobile virtual operators.

***Measures on the transparency of telephone bills, selective call blocking and user safeguards***

Between 2007 and 2008, with different Decisions, AGCom introduced new rules for the protection of users. In particular:

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN). In addition from October 1, 2008, operators have been obliged to make, automatically, the permanent disconnection of all client lines who had not expressly opted for a different alternative;

- a second ad hoc bill, provided on request, for charges relating to calls made to numbers offering premium rate services or, in alternative, an exposure in invoice of a specific box;

- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, etc.);

- a free service, available on request, which alerts customers if they exceed a pre-determined expenditure threshold.

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***Quality of services of Internet access at fixed location***

In November 2008, AGCom issued a Decision stating that operators have to provide information about the service level of Internet access services at fixed location:

- the operators must declare the minimum speed of their BroadBand connection services and other information about the characteristics. The subscribers can rescind their contract if the speed of their BroadBand connection is less than the speed declared;

- since February 2010, operators must make statistical measures at regional level (for example speed data transmission; rate of failure in data transmission; rate of packet loss). They will start the measures in four regions (Toscana, Veneto, Puglia and Sicilia) and then progressively the measures will be extended to other regions.

The Decision also introduces a super-parties agency that will verify the operator s measures. Furthermore the agency will introduce a tool with which customers can measure the quality of their BroadBand connection.

***Universal Service***

The Universal Service is a minimum set of services of a certain quality, which must be made available to all customers, regardless of their geographical location and, taking account of specific national conditions, offered at a reasonable price. To date Telecom Italia is the only operator charged with the obligation of providing the Universal Service throughout Italy.

The net cost of providing the Universal Service is calculated as the difference between the company s net cost when it is subject to the obligations of providing the Universal Service and the net cost of the same operation if the obligation did not exist. It is AGCom s responsibility to verify the net cost. A fund set up by the Ministry of Communications is used to finance the net cost. Companies in the sector contribute to it, including Telecom Italia.

In March 2008, AGCom published a decision introducing a new method of calculation. Retroactive since 2004, it affects credits related to the Universal Service net cost of the years 2004, 2005 and 2006 which has been consequently re-calculated and submitted to AGCom under the new terms. Telecom Italia has communicated universal service net cost for the years 2007, 2008 and 2009.

***Public Telephony***

In the Official Journal of April 2, 2010, Decision 31/10/CONS was published confirming that distribution criteria on the national territory of public telephones is no longer consistent with current social needs, AGCom removed any quantitative obligations for Telecom Italia. As a result, Telecom Italia after a communication to AGCom, local Administrations and interested citizens, will be authorized to remove up to 30,000 public telephones per year.

***Accounting separation and fixed network cost accounting***

Operators having SMP are required to have an accounting system showing their costs in a transparent manner. Such operators must provide the AGCom annually with both descriptions and reporting of their cost accounting system to verify compliance with the provisions of the electronic telecommunications regulatory framework. Moreover, operators of fixed public networks and mobile networks and providers of fixed public voice telephony services, mobile telecommunications services and leased line services with SMP must keep a separate accounting system distinguishing between the activities related to the building and operation of public telecommunications network, the activities related to the provision of telecommunication services, the interconnection offering and the universal service provision.

The rules on Regulatory Accounting have been updated according to EC Recommendation of September 2005 on Cost Accounting and Accounting Separation , under the regulatory framework for electronic communications in order to comply with the new sector regulation, organized by relevant markets .

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During 2009, the independent auditor appointed by AGCom to review Telecom Italia s accounting separation of the fixed network services for the years 2005, 2006 and 2007, completed its audit and delivered the requested audit reports to the NRA. Telecom Italia has also produced and delivered to AGCom the Regulatory accounts for the year 2008.

Reports of the Auditor were published by AGCom on January 2010; shortly after, according to the law, the audited regulatory accounting reports and the methodology for the years 2005-2007 were also published on the Telecom Italia website.

Regulatory accounting for the year ending December 2009, according to the law, will be prepared and delivered to the National Regulatory Authority after the Company s annual reports approved in the Shareholders meeting.

***Accounting separation and mobile network cost accounting***

In the context of the procedure of second round analyses of the market for the termination of voice calls on individual mobile networks , AGCom required SMP operators to produce economic and quantitative data related to regulatory accounting methodologies for the setting of new Network Cap values.

During the year 2009, in compliance with Decision 3/06/CONS (for the years 2006 and 2007) and with Decision 667/08/CONS (for the year 2008) and in order to provide evidence of the costs underlying mobile termination services:

- accounts at historical costs for the year 2006 were delivered in January 2009;
- accounts at current costs for the year 2006 were delivered in March 2009;
- accounts at historical costs for the year 2007 were delivered in June 2009;
- accounts at current costs for the year 2007 were delivered in June 2009;
- accounts at historical costs for the year 2008 were delivered in July 2009;
- accounts at current costs for the year 2008 were delivered in July 2009.

In relation to auditing activities by the independent auditor appointed by AGCom:

- the Regulatory Accounts of the mobile network for the year 2006 at historical costs and current costs have been reviewed and concluded;

- the Regulatory Accounts of the mobile network for the year 2007 at historical costs and current costs have been reviewed and concluded.

In November AGCom (with the support of Europe Economics) ended the implementation of Long Run Incremental Costs in order to check the value of the glide path fixed by Decision 667/08/CONS. Consultation of LRIC Model has not yet begun.

***AGCom fee for 2009***

In November 2008, AGCom issued the Decision on the payment of the fee for the year 2009, (1.45 of 2007 revenues of the communications sector, to be paid by April 30, 2009). Telecom Italia paid an amount of 20,617,391.15 euros.

AGCom Decision n. 722/09/CONS on the payment of the fee for the year 2010, setting the calculation methodology (1.5 of the 2008 revenues of the communications sector, to be paid by April 30, 2010) was published in the Official Journal of February 9, 2010.

***Broadband and digital divide***

Law 69 of June 18, 2009, has introduced economic and legal measures to promote the expansion of broadband. In particular, the law provides for:

- a series of exceptions and corrections to the existing legislation to remove some legal obstacles and operationally facilitate the building of networks;

- a provision of up to 800 million euros (with 85% earmarked for the south of Italy) to complete a program for infrastructure work that the Government should deem necessary to technologically update the electronic communications network. Up to now the resolution by CIPE, that should have established the actual distribution of the fund and the relative amount has not been issued.

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#### 4.3.2 Privacy and Data Protection

Telecom Italia must comply with Italy s data protection code (Legislative Decree No. 196/2003), which came into force on January 1, 2004.

The code is divided into three parts: 1) general data protection principles; 2) additional measures that apply to organizations in certain areas, including telecommunications; 3) sanctions and remedies.

The code applies to all processing within Italy and also affects organizations not based in Italy that use equipment located in Italy, such as computer-based systems.

According to the code, personal data shall be processed lawfully and fairly, kept accurate and up to date and must not be excessive or kept for longer than necessary. Therefore, information systems shall be configured by minimizing the use of personal data.

The data subject (any natural or legal person that is the subject of the personal data) shall receive a preliminary information on data processing purposes and modalities. Consent of the data subject is necessary to process personal data, except for specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.

***Italy s Privacy Provisions Related to Specific Processing Operations of the Telecommunications Sector***

The above mentioned code has implemented the provisions contained in the E-Communications Privacy Directive of the European Union.

As for data retention, communications service providers (CSPs) are permitted to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and telematic traffic data for the purpose of detecting and preventing crime. In the course of 2008, data retention terms were significantly reduced by Legislative Decree n. 109/2008. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for telematic traffic; 30 days for unsuccessful call attempts.

Traffic data must be kept and controlled in compliance with the general provision issued by the Italian Privacy Authority (*Garante*) on January 17, 2008 (as amended on July 24, 2008), which requires TLC operators to adopt strict security measures.

Customer profiling in the electronic communications sector is regulated by a provision adopted by the Italian Privacy Authority on June 25, 2009. CSPs must obtain the consent of the data subject for profiling based on identifiable data, while a prior checking of the Italian Privacy Authority is necessary to process aggregated data without data subject s consent.

#### 4.3.3 Antitrust in Italy

***Legislation on competition***

Telecom Italia is subject to Italian competition law.

Law 287 of October 10, 1990 ( Provisions for protecting competition and the market ) created Italy s *Autorità Garante della Concorrenza e del Mercato*, or Antitrust Authority.

The Antitrust Authority is responsible for:

- applying Law 287 of 1990 and supervising the following matters: a) restrictive agreements; b) abuses of a dominant position; and c) concentrations of enterprises;
- applying, whenever the necessary conditions exist, the corresponding European Law (Articles 81 and 82 of the EC Treaty);
- applying the standards of Legislative Decree 206 of 2005 with regard to unfair commercial practices;
- monitoring conflicts of interest in the case of people holding government posts.

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In addition, article 14 of Decree Law 223/06, entitled Supplementary powers for the Antitrust Authority , converted into law by Law 248/06, established that the Authority may impose the adoption of precautionary measures and declare obligatory the commitments made and presented by businesses, in order to eliminate any anti-competitive practices, simultaneously ending the proceedings with the finding of a non-violation.

#### 4.3.4 Telecommunication Regulatory Framework in Brazil

The activities of the Telecom Italia Group in Brazil are subject to the General Law on Telecommunications (Ley General de Telecomunicações LGT) of 1997 and the regulatory framework for the supply of telecommunications services promulgated by the Brazilian regulatory authority, Agência Nacional de Telecomunicações ( **ANATEL** ).

ANATEL is responsible for the regulation and implementation of national policy regarding the telecommunications sector with autonomy in relation to finances and decision-making and has a broad scope to guarantee competition and prevent concentration of services. ANATEL has the power to impose restrictions, limitations or conditions when granting concessions, permission or authorizations.

On January 1, 2002, the Brazilian telecoms market was liberalized and any operator can enter the market, although, it needs authorization from ANATEL to operate.

Four main players operate in the mobile market (Claro; Vivo; Oi; Tim Brasil) and compete nationwide. Third generation services deployment started in 2008.

***Authorizations***

The authorizations for mobile telephony give the companies of the Telecom Italia Group (which operate under the brand name Tim Brasil) coverage of the entire Brazilian territory and include the possibility of offering long-distance calls.

In May 2007, Tim Celular, a company of the Telecom Italia Group, obtained the licenses to operate local fixed telephone networks throughout Brazil; this will also enable the Tim Brasil group to operate in the fixed telephone services market.

In August 2009, ANATEL gave its approval for the acquisition of the fixed line operator Intelig, which operates as a National and International Long Distance operator in Brazil and provide local fixed service in a number of regions in Brazil. According to the regulations, Tim Brasil and Intelig are obliged to solve the overlapping of the fixed service authorizations within 18 months from the acquisition, keeping only one authorization for class of service.

For details please also see Item 4. Information on the Telecom Italia Group 4.2.2 Brazil .

***Interconnection rules***

Telecommunication operators must publish a public offering of interconnection economic conditions and are subject to the General Interconnection Regulatory Framework promulgated by ANATEL in 2005.

Fixed line retail tariffs are subject to price regulation according to specific telecommunication and productivity factor indexing; fixed interconnection charges are regulated by a percentage of the retail price, while mobile interconnection charges are freely negotiated by operators with dispute resolution by the regulator in case of disagreement.

Interconnection agreements must be approved by ANATEL before they can be applied.

***Significant Market Power (SMP) and instruments for cost orientation***

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting , introducing the obligation of presenting the Account Separation and Allocation Document ( DSAC ) by the license holders and Groups holding significant market power in offering fixed and/or mobile network interconnection and wholesale leased lines ( EILD ). Starting from 2006, operators are delivering the requested information to ANATEL.

The application of Cost Oriented interconnection charges are expected in 2010.

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***Main regulatory developments in 2009***

The Brazilian Government announced the intention to launch a National Broad Band Plan in 2010, to reach the total of 90 million BroadBand accesses in 2014 (30 million fixed accesses; 60 million wireless accesses).

ANATEL consulted stakeholders (October 2009) on the hypothesis to assign 140MHz in the 2.5GHz band to wireless and mobile BroadBand services. The 2.5MHz band is currently assigned to MMDS TV services.

ANATEL approved (November 2009) the decision on the methodology to calculate the weighted average cost of capital (WACC) of the Brazilian telephone sector that should be applied with the introduction of Cost Oriented interconnection charges.

ANATEL launched (December 2009) a public consultation on the introduction of mobile virtual operators in Brazil. The consultation ended March 2010.

ANATEL launched a public consultation (December 2009) on the draft text of the bid to assign a new portion of spectrum in the 2.1GHz band (3G services). The consultation ended in February 2010. The bid is expected for the second half of 2010.

***Main regulatory developments in the first quarter 2010***

ANATEL consulted stakeholders (February 2010) on an amendment to the rules regulating Mobile Operators Network Remuneration. According to the proposal, operators with a market share below 20% in each of the three regions in which Brazil is divided for mobile licensing purposes, should not be considered as Significant Market Power Operators in the wholesale market of mobile interconnection (according the current rule, each mobile operator is considered as a Significant Market Power Operator in its own business area). If approved, this amendment may open the way to an asymmetric regulation of the mobile interconnection rates.

#### 4.3.5 Broadcasting Regulatory Framework in Italy

***Consolidated Act on Broadcasting (Legislative Decree 177, July 31, 2005) and Legislative Decree 44, March 15, 2010.***

Broadcasting activity in Italy is mainly regulated by the Consolidated Act on Broadcasting (Legislative Decree 177, July 31, 2005), recently amended by the Legislative Decree 44, March 15, 2010, implementing the Audio Visual Media Services (AVMS) Directive, which entered into force on March 30, 2010.

The new Decree 44 introduces changes to the audiovisual legislation in the areas of advertising and product placement, promotion of European works, short extracts rights, protection of minors, and extends regulation to non linear audiovisual services.

AGCom (the Regulatory Authority) will implement the new rules through regulation, including adjustment of authorisation titles already released to the new rules.

As regards advertising on linear services (tv channels) the rules on ads positioning have been liberalised, providing more freedom in the way advertising is inserted in tv schedules.

As regards the time limits for advertising, the Decree has substantially confirmed the hourly and daily limits for free to air tv channels, while it has reduced hourly limits for pay-tv channels which will have to gradually reduce advertising from 18% in a given hour applying in 2009 to 12% in 2012.

The Decree also allows for Product Placement, in line with the rules set by the Directive AVMS, which limit this opportunity to movies, fiction and sports programmes. The implementation rules will be set through self-regulation.

Protection of minors has been reinforced, in particular as regards pay-tv services and on demand services. All audiovisual media service providers will have to adopt a Classification System of contents directed at protecting minors.

The rules on promotion of European works have also been renewed and this will imply a new regulatory framework on transmission and investment quotas. Telecom Italia Media will be able, as in the previous regulatory framework, to apply for an exemption, in particular as regards quotas on programmes for minors and on Italian recent movies.

The Decree also amends the rule on secondary rights for independent producers, which will therefore be the object of new regulation and self-regulation. Telecom Italia Media positively evaluates this change as it will lessen the burden in terms of obligations towards independent producers.

Finally, in line with the Directive AVMS, the Decree extends regulation to non linear audiovisual services. An audiovisual media service provider is identified as the one having the editorial responsibility of the contents provided in the catalogue. A general authorisation is needed. AGCom will issue regulation on this matter by June 30, 2010.

As regards digital terrestrial television, Decree 44 entrusts AGCom to issue a plan for the implementation of a Logical Channel Numbering (LCN) for the digital terrestrial platform. So far, in the process of the transition from analogue to digital terrestrial tv and specifically in the areas where switch off has taken place, the absence of a LCN system has caused uncertainties for broadcasters due to conflicts on channel numbers. Therefore this is a critical issue for TIMedia channels, La7 and Mtv, which are positioned on number 7 and 8 respectively, as approval of a plan by the Authority will prevent problems in the next switch off areas (in the second half of 2010, 23 million people will be involved in the transition to digital tv).

***Switch-off calendar***

The complete switch-off of analogue tv and conversion will take place by December 31, 2012. In 2009, complete Switch Off has taken place in the following Italian Regions: Sardegna, West Piemonte, Valle d Aosta, Trentino Alto Adige, Lazio and Campania. Switch off is planned in the second half of 2010 in Lombardia, East Piemonte, Emilia Romagna, Veneto, Friuli Venezia Giulia, Liguria, involving 23 million people and will result in 70% of the Italian population being digital.

**Digitalisation of broadcasting networks and frequencies**

In response to the EU infringement procedure 2005/5086 against Italy, the Government approved in June 2008, Law No. 101, which abolishes the special licensing regime for digital terrestrial network operators and introduces the authorization regime in line with the Code of Electronic Communications and the UE Directives.

As a consequence, the licenses granted have been converted to general authorizations lasting 20 years.

The European Commission has positively evaluated the changes introduced with law 101/08, but has asked that more spectrum resources should be assigned to new entrants (digital dividend). In response to these further requests, AGCom has established (Decision 181/09/CONS) the criteria for the complete digital conversion of the television terrestrial networks. At present the digital dividend consists of 5 DVB-T Networks to be assigned in two different tenders, one consisting of 3 Networks/Muxes and the other of 2 Networks/Muxes. AGCom has opened a consultation, yet to be concluded, on the criteria to be adopted in the two tenders for the assignment of the digital dividend. The consultation document presented a number of issues on which Telecom Italia Media has asked for changes. AGCom is also in the process of approving the National Plan of Assignment of the Frequencies ( **PNAF** ) necessary for the assignment of frequencies in the digital switch off areas as well as for the digital dividend tender. Telecom Italia Media Broadcasting ( **TIMB** ), the network operator of the Telecom Italia Media group, has been assigned 4 Muxes in Sardinia, the first switch off area. In the other switch off Regions, however, TIMB was assigned only 3 Muxes, in contrast with the rule setting a one-to one conversion principle (1 analogue network = 1 digital Network). The Telecom Italia Media group has appealed against this decision in order to safeguard its interests.

***European Commission Market Test on Sky Italia commitments***

In 2003 the European Commission approved the acquisition of Telepiù by NewsCo, thus allowing for a single operator on satellite pay tv services, but imposed a number of undertakings in order to ensure that the pay tv market remained open.

One of these undertakings consisted in preventing Sky Italia from entering the digital terrestrial market both as network operator and as pay tv service provider.

Newscorp has recently asked the European Commission to remove the undertaking which prevents Sky Italia from becoming a digital terrestrial network operator so as to allow it to participate in the digital dividend beauty contest. The European Commission has issued a market test in order to receive evaluations from all stakeholders. The decision is yet to be released.

Such decision could change the market dynamics and the existing regulatory framework.

***Market 18 (co-location services)***

RAI and Mediaset, identified as holding a joint dominance in the analogue broadcasting market, have published a Reference Offer for co-location services of transmitters on analogue sites, as established by the AGCom Decision of April 2008, on market 18 . The Reference Offers could establish a benchmark for co-location prices for digital sites.

AGCom has launched, but yet not concluded, a new market analyses in March 2009, directed at deciding whether to eliminate, maintain or modify the above mentioned obligations.

***Sports rights and emerging platforms***

With Decision 665/09/CONS, the Authority has identified IPTV, DVBH, GSM, GPRS and UMTS as emerging platforms within the scope of the commercialisation of sports rights. Legislation in this area foresees special favour rules to access rights for emerging platforms.

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Item 4. Information On The Telecom Italia Group Glossary Of Selected Telecommunications Terms

## 4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

**2G (second-generation Mobile System).** Second-generation protocols using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. 2G networks are in current use all over Europe and other parts of the world. These protocols support high bit rate voice and limited data communications. 2G networks technology offer auxiliary services such as data, fax and SMS. Most 2G protocols offer different levels of encryption.

**3G (third-generation Mobile System).** Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity. 3G networks allow the transfer of both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G and, 3G networks technology enable full motion video, high-speed internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are used interchangeably) and CDMA2000.

**Access charge.** Amount charged per minute by national operators for the use of their network by operators of other networks. Also known as an interconnection charge .

**ADSL (Asymmetric Digital Subscriber Line).** A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can receive Mbps and transmit over 832 Kbps in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

**Analog.** A transmission which is not digital, e.g., the representation of voice, video or other not in digital form.

**ASTN (Automatically Switched Transport Network).** Emerging architectural standard for switched intelligent optical network for the management of the automatic signaling and routing of connection, auto-discovery and meshed optical network protection.

**ATM (Asynchronous Transfer Mode).** A BroadBand switching technology that permits the use of one network for different kinds of information (e.g., voice, data and video).

**Backbone.** Portion of telecommunication network with the highest traffic intensity and from which the connections for services in the local areas depart.

**Backhauling.** Infrastructure network connecting sites that host the equipment for user access (xDSL or other systems, also Wireless / Mobile). It can be realized in various ways depending on the band, topology and distance.

**Bitstream.** Wholesale BroadBand access service which consists of supplying an access to XDSL Telecom Italia network and transmission capacity to the network of another OLO.

**BroadBand services.** Services characterized by a transmission speed of 2 Mbit/s or more. According to international standards, these services are divided into two categories: (i) Interactive services, including videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; CAD; highspeed fax; e-mail for moving images or mixed documents; BroadBand videotex; Video on demand; retrieval of sound programs or fixed and moving images; and (ii) Broadcast services, such as sound programs, television programs (including high-definition TV and pay TV) and selective document acquisition.

**Broadcast.** Simultaneous transmission of information to all nodes and terminal equipment of a network.

**BSC (Base Station Controller).** Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.

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**BSS (Business Support System).** The system used by network operators to manage business operations such as billing, sales management, customer-service management and customer databases. A type of Operations Support System (OSS).

**BTS (Base Transceiver Station).** Radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX).

**Bundle.** Commercial offer including different telecommunication services (voice, BroadBand internet, IPTV, other) by an operator under the same brand. *Bundle Dual Play* offer includes fixed telecommunication services and BroadBand internet; *bundle Triple Play* offer is the bundle dual play integrated with IPTV; *bundle Quadruple Play* offer is the bundle triple play integrated with mobile telecommunication services.

**Carrier.** Company that makes available the physical telecommunication network.

**CATV (Cable television).** Cable or fiber-based distribution of TV programs.

**CDMA (Code Division Multiple Access).** A digital wireless technology used in radio communication for transmission between a mobile phone and a radio base station. CDMA was developed by Qualcomm, and commercially introduced in 1995. It enables the simultaneous transmission and reception of several messages, each of which has a coded identity to distinguish it from the other messages.

**Cell.** Geographical portion of the territory illuminated by a BTS: 900MHz / 1800MHz.

**Cellular.** A technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a cell (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

**Channel.** The portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

**Client server.** Software program that is used to contact and obtain data from a Server software program on another computer. Each Client program is designed to work with one or more specific kinds of Server programs, and each Server requires a specific kind of Client. This configuration model is opposed to a Peer-to-Peer configuration, where the contact is performed on the same level.

**Closed User Group.** A group of telecommunications users that share a longstanding economic interest. This definition has arisen in a regulatory context; it permits the partial liberalization of some telecommunications services.

**CPS (Carrier Pre-selection).** Permits a customer to pre-select another operator as an alternative to Telecom Italia without dialing an identifying code.

**D-AMPS (Digital-Advanced Mobile Phone Service).** It is a digital version of AMPS (Advanced Mobile Phone Service), the original analog standard for cellular telephone service in the United States.

**DCS 1800 (Digital Communication System).** A derivative of the GSM cellular mobile telephone standard. 1800 refers to the frequency used of 1800 MHz. DCS 1800 is the European PCN standard.

**Digital.** A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks are rapidly replacing the older analog ones. They allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

**Digital divide.** The gap between people with effective access to digital and information technology and those with very limited or no access at all. The term encompasses among others: gaps in ownership of or regular access to a computer, internet access today primarily BroadBand, and related skills.

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Item 4. Information On The Telecom Italia Group Glossary Of Selected Telecommunications Terms

**Digital Home.** Fruition of a fully/partially automated house. Generally the term refers to the presence of a home network of Consumer Electronics equipment, personal computer and mobile devices that cooperate transparently, delivering simple, seamless interoperability that enhances and enriches user experiences in Internet access, multimedia**,** home tasks automation.

**Digital Terrestrial TV.** Digital Terrestrial Television Broadcasting is a new type of broadcasting technology that provides a more effective way of transmitting television services using a digital system instead of the existing analogue system.

**DSL Network (Digital Subscriber Line Network).** A network built on existing telephone lines with DSL technology devices which use sophisticated modulation schemes to pack data onto copper wires for connections from a telephone switching station to a home or office.

**DSLAM (Digital Subscriber Line Access Multiplexer).** The DSLAM denotes telecommunications equipment able to process digital signals of various clients and multiply them in a data link to the nodes of the Internet.

**DVB H (Digital Video Broadcasting Handheld).** DVB H technology combines digital video with the Internet Protocol (IP): contents are subdivided into packets using the same basic technology employed by the Internet. The use of IP technology allows the transmission of TV and radio programs, web pages, music and video games to smartphones/PDA s.

**DWDM (Dense Wavelength Division Multiplexing).** This is a technology for multiplying and transmitting different wavelengths along a single optical fiber contemporaneously.

**EDGE (Enhanced Data for GSM Evolution).** This is a powerful technology that increases the data transmission rate of the GPRS standard from rates of 30-40 kbit/s to more than 100 kbit/s and even up to 200 kbit/s with optimal radio conditions.

**Exchange.** See Switch.

**Flat rate.** The rate applied by providers to users surfing the web. It is usually a fixed monthly rate for a subscription to a specific Internet Service Provider, aside from the number of connection hours to the Net.

**Frame Relay.** A data transmission service using fast protocols based on direct use of transmission lines.

**FTT HOME, FTT CURB, FTT** (*Fiber to the* **).** It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the

distribution network where the fiber connection is made, with respect to the end-user s location. In the case of **FTT Curb** (Fibre to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of **FTTHome** (Fibre to the Home), the fiber connection terminates inside the customer premises.

**Gateway.** A connection between the LANs and WANs of one or more suppliers. Can also mean the access nodes to international networks of various kinds.

**GGSN (Gateway GPRS Support Node).** Junction connecting an external packed network or GPRS system of a different mobile network.

**GRX (GPRS Roaming eXchange for Mobile Operators).** The GRX service allows Mobile Operators to interconnect GPRS networks around the world and offer global GPRS roaming coverage.

**GSM (Global System for Mobile Communication).** A standard for digital cellular telephony used in the world and working on 900MHz and 1800MHz band.

**GSM TIM Card.** A prepaid, rechargeable card which permits the TIM mobile customer to make outgoing calls up to the limit of the card and receive an unlimited number of calls.

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**HDSL (High-bit-rate Digital Subscriber Line).** Technology for business customers which allows the provision of local loop circuits at higher speeds and lower cost than through conventional means.

**HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed Universal Mobile Telecommunications System).** UMTS evolution allows BroadBand connections up to 3.6 Mbps.

**HLR (Home Location Register).** Database where are recorded the customer data.

**Kvar (kilovolt amperes reactive).** Reactive energy: measurement system, expressed in kilovolt, of power losses in an AC electrical system.

**ICT (Information and communication(s) technology).** Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

**IEEE (Institute of Electrical and Electronics Engineers).** An organization of engineers, scientists and students involved in electrical, electronics and related fields. IEEE also functions as a publishing house and standards body.

**IMSS/MSEM (Italtel Multi Service Solution/Multi Service Element Manager).** It s a proprietary platform for the management of the whole network. Refer to a software switch that is compatible with many protocol type for IP communication and network interworking as SIP, H323, MGCP and H248. The supplier is ITALTEL.

**Interactive.** Allowing the user to change some aspect of the program.

**Internet.** The world s best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but which use the TCP/IP protocol platform.

**Internet Protocol TV or IPTV.** The service provides the distribution of television channels over Internet connections using the IP protocol. More than just duplicating a distribution means, IPTV enables interactive services so that the viewer can interact with the show as it is broadcast.

**IP (Internet Protocol).** A set of communications protocols for exchanging data over the Internet.

**IP/MPLS (Internet Protocol/Multi Protocol Labeling Switching).** A packet switching protocol to optimize network behaviors of mapping Layer3 (IP) end-to-end data flow to Layer2 traffic between adjacent network nodes.

**IPTV (Internet Protocol Television).** A system that utilises the Internet Protocol infrastructure to transmit digital television content over a network and deliver it via a BroadBand Internet connection.

**ISDN (Integrated Services Digital Network).** A system in which several services (e.g., speech and data) may be simultaneously transmitted end to end in digital form.

**ISPs (Internet Service Provider).** A vendor who provides access to the Internet and World Wide Web.

**ITU (International Telecommunication Union).** The worldwide policy, spectrum regulation and standardization body in telecommunication operating under the auspices of the United Nations.

**LAN (Local Area Network).** A private network that covers a local geographic area and provides public telecommunications services as well as interconnection between personal computers.

**Local Loop.** Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called last mile .

**MGCP (Media Gateway Control Protocol).** An Internet Engineering Task Force (IETF) signaling protocol proposal allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

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**MEMS (Micro-Electro-Mechanical Systems).** MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

**MGW (Media GateWay).** Junction for the connections which carry user traffic.

**MMS (Mobile Multimedia Services).** Represent an evolution of the SMS and the EMS service using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

**Modem (Modulator/Demodulator).** A device that modulates digital data to allow their transmission on analog channels, generally consisting of telephone lines.

**MPLS (Multi Protocol Label Switching).** A packet switching protocol to optimize network behaviors of mapping Layer3 end-to-end data flow to Layer2 traffic between adjacent network nodes.

**MS SPRING.** A form of traffic protection mechanism for the equipment.

**MSC (Mobile Switching Center).** Executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

**MSP.** The name of a general purpose programmable switch made by Redcom Laboratories.

**Multimedia.** A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

**Network.** An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fibre optic or metallic cable or point to point radio connections.

**NGAN (New Generation Access Network).** New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

**NGNs (Non-Geographic Numbers).** The non-geographic numbers are unique as they are by definition not associated with any particular geographic location (*e.g.* premium rate services, toll free, directory assistance services).

**NGN2 (Next Generation Network).** New generation network created by Telecom Italia to meet the demands of corporates, public administrations and citizens. The new network architecture guarantees an infrastructure designed to face multiple offers by increasing customisation levels and bandwidth availability, removing bandwidth limits and providing an impressive capacity along with a wide selection of access systems.

**NNI Agreements (Network Node Interface Agreements).** Contractual agreements for the interface between two public network pieces of equipment ( NNI ).

**Node.** Topological network junction, commonly a switching center or station.

**Node B (counterpart of BTS in GSM).** This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

**OLOs (Other Licensed Operators).** Companies other than the incumbent operator which operate telecommunications systems in a national market.

**Online advertising.** Form of promotion that uses the Internet and World Wide Web for the purpose of delivering marketing messages to customers. Examples of online advertising include contextual ads on search engine results pages, banner ads, rich media ads, social network advertising, online classified advertising, advertising networks and e-mail marketing.

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**ONP (Open Network Provision).** Principles and conditions laid down by the EU for access to and usage of public telecommunications networks and services. A network architecture that permits telecommunications services to be offered on facilities of public operators and for equipment to be connected to such networks.

**Optical fiber.** Thin glass, silica or plastic wires, building the interstructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at illimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable ones.

**OSS (Operations Support System).** Methods and procedures (whether mechanized or not) which directly support the daily operation of the telecommunications infrastructure.

**Outsourcing.** Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company, and, ultimately, the management of entire telecommunications systems. Value-added applications may also be provided in various sectors.

**Packet-Switched Services.** Data services based on parceling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

**Pay-Per-View or PPV.** A system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

**Pay TV.** Paid-for TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system.

**PCS.** Personal communications services.

**PDA (Personal Digital Assistant).** A handheld computer with a memory size up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but can incorporate advanced office or multimedia functions such as voice calls, messaging, video, mp3 player, etc.

**Penetration.** The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and multiplying the quotient by 100.

**Platform.** The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (management platform) a particular service (service platform).

**POP (Point Of Presence).** Internet provider locations for network connection, often through dial-up phone lines. When a Pop is within a specific local area, users can connect to the Internet by dialing a local phone number.

**POTS (Plain Old Telephone Service).** Refers to the basic telephony service (homes use) supplying standard, single-line telephones, fixed-line services and access to public voice telephony network. In contrast, telephone services based on digital communications lines, such as ISDN, are not POTS. The main distinctions between POTS and non-POTS services are speed and bandwidth. POTS is generally restricted to about 52 Kbps.

**PSTN (Public Switched Telephone Network).** The public telephone network delivering the basic telephone service and, in certain circumstances, more advanced services.

**RNC (Radio Network Controller counterpart of BSC in GSM).** Supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC*, and other RNC.

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**Roaming.** A function that enables wireless subscribers to use the service on networks of operators other than the one with which they signed their initial contract. The roaming service is active when wireless is used in a foreign country (included in GSM network).

**RTG.** Is the network of the world s public circuit-switched telephone networks in much the same way that the Internet is the network of the world s public IP-based packet-switched networks.

**SDH Standard (Synchronous Digital Hierarchy).** The European standard for high-speed digital transmission.

**SDSL (Symmetrical Digital Subscriber Line).** Also known as HDSL.

**Service Exposure.** The opening of selected proprietary telecommunication networks and IT capabilities to third parties.

**Service Provider.** The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

**SGT (Transit exchange interconnection level for telephone traffic).** Transit Exchange for telephone traffic carriage, routing and transmission.

**SGU (Local exchange interconnection level for telephone traffic).** Local Exchange for telephone traffic carriage, routing and transmission.

**Shared Access.** Methods of shared access, through the user s duplex cable, with another TLC service provider. This method permits the retention of voice telephony from Telecom Italia (or other operators) alongside ADSL on the proprietary network of the shared access operator, that is, not passing through the Telecom Italia networks but travelling directly along the operator s channels at the substation.

**SME.** The small- and medium-size enterprise market which consists of businesses having between 3 and 50 employees.

**SMS (Short Message Service).** Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

**SNCP.** A form of traffic protection mechanism for the equipment.

**SOHO.** The small office/home office market which consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

**SPP (Service Provider Portability).** Allows an end user to retain the same directory number after changing from one service provider to another.

**Switch.** These are used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

**Synchronous.** Type of data transmission in which there is permanent synchronization between the transmitter and the receiver.

**TACS (Total Access Communication System).** An analog cellular network using the 900 MHz band based on a European standard also used in the UK, Ireland, Austria and Spain. Features include handover and available add-on services include answering, call notification, call transfer, differentiation of business and private calls, authorization code for outgoing international calls and itemized billing.

**TDMA (Time Division Multiple Access).** A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

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**TRX.** Radio transceivers located in BTS.

**ULL (Unbundling Local Loop).** System through which OLO can rent the last mile of local loop, connecting to their equipments.

**UMTS (Universal Mobile Telecommunications System).** Third-generation mobile communication standard. It s constituted by a BroadBand system in which data travel at 2Mb-per-second, communication is faster, quality is better and multimedia contents can travel trough the Net.

**UMTS Cell.** Geographical portion of the territory illuminated by a Node B.

**UMTS Channels**. These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

**Unbundling.** A process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user s home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier s terminals.

**Universal service.** The obligation to supply basic service to all users throughout the national territory at reasonable prices.

**VAS (Value Added Services).** Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct BroadBand analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotex and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

**VDSL (Very-high data rate Digital Subscriber Line).** Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with a speeds of up to 100 Mbps in downstream (VDSL2).

**VOD (Video On Demand).** TV-programme supply on user s request, with payment of a fee for each purchased programme (a movie, a soccer match, etc). Broadcast in a special method for cable and satellite TV.

**VoIP (Voice Over IP).** Transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet.

**VPN (Virtual Private Network).** A network designed for a business or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

**WAN (Wide Area Network).** A private network that covers a wide geographic area using public telecommunications services.

**WAP (Wireless Application Protocol).** A technology which allows access to the Internet using mobile sets, even without the use of a computer.

**WI-FI.** A service for wireless Internet connection and high speed access.

**WLL (Wireless Local Loop).** The means of configuring a local loop without the use of wiring.

**Wi Max (Worldwide Interoperability for Microwave Access).** The Wi MAX is a technology that allows wireless access to BroadBand telecommunications networks. It is defined by the Wi MAX Forum, a global

consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

**WLR (WHOLESALE LINE RENTAL).** The WLR Service consists in the resale to wholesale of the basic telephony services and advanced ISDN associated with the fees paid by certified residential and non-residential customers of Telecom Italia s public telephone network.

**XDSL (Digital Subscriber Line).** It is a technology that makes use of standard telephone lines and it includes different categories including: ADSL Asymmetric DSL, HDSL High-data-rate DSL and VDSL, Very high bit rate DSL. This technology uses a digital signal with a very high frequency in order to increase the data transfer rate.

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## 4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

### General

As of December 31, 2009 and 2008, property, plant and equipment owned and leased are detailed as follows:

| | As of December 31, 2009 | | | | As of December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned | Leased | Total property, plant and equipment | % of total property, plant and equipment | Owned | Leased | Total property, plant and equipment | % of total property, plant and equipment |
| | (millions of euros, except percentage) | | | | | | | |
| Land | 125 | | 125 | 0.8 | 123 | | 123 | 0.8 |
| Civil and industrial buildings | 511 | 1,246 | 1,757 | 11.8 | 493 | 1,302 | 1,795 | 11.5 |
| Plant and equipment | 11,462 | | 11,462 | 76.9 | 12,037 | 37 | 12,074 | 77.1 |
| Manufacturing and distribution equipment | 31 | | 31 | 0.2 | 38 | | 38 | 0.2 |
| Ships | 26 | | 26 | 0.2 | 33 | | 33 | 0.2 |
| Aircraft | | | | | | 3 | 3 | |
| Other | 618 | 7 | 625 | 4.2 | 857 | 16 | 873 | 5.6 |
| Construction in progress and advance payments | 833 | 43 | 876 | 5.9 | 671 | 52 | 723 | 4.6 |
| **Total** | **13,606** | **1,296** | **14,902** | **100.0** | **14,252** | **1,410** | **15,662** | **100.0** |

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications, most of which are located throughout Italy. There are no encumbrances that may affect our utilization of our property or equipment.

### Real Estate (Land, Civil and Industrial Buildings)

As of December 31, 2009, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

On December 31, 2009, Tim Brasil group owned approximately 110,225 square meters and leased approximately 1,302,607 square meters of real property, all of which were available for installation of our equipment. Tim Brasil group also leases approximately 127,039 square meters and owns approximately 107,981 square meters of office space.

**Network Infrastructure (Plant and Equipment)**

The Telecom Italia Group network infrastructure includes the domestic and international fixed network, the domestic mobile network and the Brazilian mobile network. See 4.4 Glossary of Selected Telecommunications Terms , for definitions of the technical terms used in this section.

***Domestic Fixed Network***

**General.** Our domestic fixed network consists of 33 gateway areas (each gateway area has two interconnection points enabling information to be exchanged between the fixed and mobile networks) and 628 main local switches (only for fixed OLOs). Each local switch belongs to only one of the 33 gateway areas. The long-distance fixed network (Arianna SDH and Phoenix) routes 4,413 VC4. The fixed long distance network also includes 82 optical channels 2.5 Gbps point to point and 412 optical channels 10 Gbps point to point (also called lambdas from the greek letter l used for wavelength in physics). The fixed copper network includes 110.5 million km of copper pairs.

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**Item 4. Information On The Telecom Italia Group** **Description Of Property, Plant And Equipment**

At December 31, 2009, the domestic fixed network consisted of the following:

| | |
|---|---|
| Exchange areas | approximately 10,400 |
| Switching areas | 628 Urban Group Stages (SGU) |
| Gateway areas | 33 |
| Copper network | 110.5 million kilometers-pair |
| Fiber optic access/carrier network | 4.1 million kilometers-line |
| Long Distance VC4 | 4,413 |
| Long Distance Lambda | 82 2.5 Gbps, 412 10 Gbps |
| BroadBand/ADSL network | 8,671 local switching areas covered |
| IPTV (Internet Protocol TV) | 1,437 local switching areas covered |
| POP main data networks | 32 |

**SDH and ATM.** Our Synchronous Digital Hierarchy ( **SDH** ) transmission systems are operating on fiber optics from 155 Mbit/sec up to 10 Gbit/sec. Work on the development of the national network (Long distance) that, by use of the latest generation of SDH technologies and the optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for the transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2009. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 40 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

In November 2002, Telecom Italia introduced a new generation of Optical Digital Cross Connect ( **ODXC** ) on the domestic fixed transmission backbone in order to progress with the transition from a national network based on a SDH rings architecture, towards the new generation of meshed ASTN (Automatically Switched Transport Network) optical backbone. In 2009, Telecom Italia did not add any ODXC nodes but increased the capacity of existing links and nodes. The evolution of the transport network towards a completely optical network will increase the operating capacity for all types of traffic, from voice to Internet.

Asynchronous Transfer Mode ( **ATM** ) switching technology allows the transfer of information combining data, video, voice and other services on public and private networks both at a national and international level. Telecom Italia s ATM/Frame Relay networks work together as a multiservice network, using SDH transmission systems as a physical layer. The ATM Network allows for the provision of ATM native services with access rates ranking from 2Mbit/s up to 155 Mbit/s. It also acts as a backbone for both the Frame Relay Access network (with access rates ranking from 64 kbit/s up to 2 Mbit/s), and for the DSL (Digital Subscriber Line) Network, used for the provisioning of xDSL services (ADSL High-bit-rate Digital Subscriber Line or HDSL) and SDSL. The ATM/Frame Relay networks allow customers to access IP and MPLS services (Multi Protocol Label Switching) with access speeds between 64 kbit/s to 155 Mbit/s.

**OPB (Optical Packet Backbone).** In 2009 we continued to implement the introduction in the network of Terarouter equipment, deployed in some of the most important PoPs of the network. At the end of 2009 OPB Network had Terarouter nodes in the following seventeen PoPs: two Centro Stella PoPs in Rome, two Centro Stella in Milan (Inner Core PoPs) and the OPB PoPs located in Naples, Turin, Florence, Palermo, Bari, Bologna, Brescia, Padua, Catania, Nola, Venice, Pisa and Ancona (Outer Core PoPs).

The OPB network is used to transport:

- Internet traffic of residential, business and Wholesale customers;

- VPN traffic (Virtual Private Network) of business customers;

- Voice traffic;

- Video traffic related to IPTV services.

**OPM (Optical Packet Metro).** At the end of 2009 OPM consists of 30 metro-regional networks to collect traffic to and from residential customers through DSLAM IP to supply the IPTV and ADSL2+ services. The OPM network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) transport, aggregation as well as direct connection (Node B over optical fiber).

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**Gigabit Ethernet Access.** Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway and Genius services on GBE optical access). At the end of 2009, services with GBE optical access covered 36 towns in Italy.

**Network quality and productivity.** Following the completion of the porting of all the OSS systems on OPEN platforms in 2006, we completed in 2007 the integration of the supervision systems of the fixed and mobile networks and of the platforms for service creation. This allowed us a 15% saving on activities previously performed by the separate systems.

**BroadBand/ADSL network.** Telecom Italia s BroadBand network can offer hi-tech telecommunications services and multimedia applications. This objective is being reached through the gradual installation of fiber optic cables. In 2009, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 6,925 towns (compared to 6,676 at the end of 2008). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2009, 8,671 local switching areas were covered by ADSL technology, (compared to 8,363 at the end of 2008).

**NGN FTTx.** In 2009 Telecom Italia continued to deploy a new generation access network, based on fiber optical cables and GPON (Gigabit capable Passive Optical Network) technology. First deployments have been done using FTTB (Fiber To The Building) architecture and new generation cabinets, equipped with VDSL2 cards. During 2009, further 3,500 buildings have been passed in the central area of Milan. Fiber optical deployment interested 10 central areas, where Telecom Italia laid new optical cables or acquired the right of use (IRU approach) for 15 years on fiber optics from Metroweb (a utility that already owns a widespread optical access network in Milan).

**Fiber optic cables.** At December 31, 2009, approximately 4.1 million kilometers of fiber optic cables have been installed for access and transport, of which approximately 1.2 million kilometers are installed in the long-distance network. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video. To make these services more widely available, Telecom Italia is evaluating the introduction of fiber optics to the access network.

**VoIP (Voice over IP) Services.** The complete digitalization of the network both the backbone and the metropolitan network is proceeding towards the distribution network (with ADSL), thus favoring the introduction of VoIP and other associated services. These services are available to business customers and residential customers who sign up for ADSL. VoIP is regarded as an additional service, whose value, for the customer, is expressed in having access to a greater number of lines, numbers and terminals. Furthermore, by exploiting extra functions, such as the presence and communities typical of always-on connection systems, it is possible to have additional revenues. At the same time, the value added perceived by customers contributes to the expansion of BroadBand and, consequently, increases the benefits resulting from complete digitalization.

**IPTV (Internet Protocol TV).** Quadruple play is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and able to supply a vast range of services. IPTV is an important part of this evolution. In 2006 the first commercial service was launched, involving 836 exchange areas and 258 towns. In 2009 the commercial service with access to IPTV technology has been expanded to 1,437 exchange areas (compared to 1,119 at the end of 2008). IPTV is considered a key component in providing customers with access to information in any form, anywhere, through fixed and mobile infrastructures as the situation demands.

***Domestic Mobile Network***

The domestic mobile network consists of the 2G (second generation) network, which includes GSM equipment, and the 3G (third generation) network, for UMTS equipment offering hi-tech services (including video).

As of December 31, 2009, the Telecom Italia GSM/EDGE network consists of 14,634 radio base stations (compared to 14,301 at December 31, 2008, an increase of 2.3%) and 750,520 radio channels (a decrease of 0.5% compared to 754,632 at the end of 2008). The network also includes 456 Base Station Controllers ( **BSC** ) (a decrease of 2 units compared to December 31, 2008).

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During 2009 planning and implementation of the UMTS network continued, so that coverage was extended to all the regional capitals, in accordance with the obligations laid down in the 3G license, as well as other areas throughout Italy. The Telecom Italia UMTS network consists of 12,255 radio base stations (compared to 11,256 at December 31, 2008, an increase of 9%) and 1,779,600 radio channels (an increase of 5.7% compared to 1,683,440 at the end of 2008).

We continued the implementation of the network plan to distribute the High Speed Downlink Packet Access ( **HSDPA** ) phase 1 (3.6 Mbps in downlink) and at the same time to introduce the HSDPA phase 2 (7.2 Mbps in downlink) and the High Speed Uplink Packet Access ( **HSUPA** ) phase 1 (1.46 Mbps in uplink); these systems aim to increase the overall speed of the data transmission package offered by UMTS.

At the end of 2009 all UMTS stations are able to perform HSDPA phase 1 and phase 2.

Also operating on the network are 98 Radio Network Controllers ( **RNC** ) (an increase of 7 units as compared to the end of 2008).

The process of modernizing the GSM exchanges with older technologies has begun, so that new technologies can be adopted. These systems will have an architecture which is the same as those used on the UMTS network. These exchanges have layered or split technology, (both terms are used), in which the Monolithic Mobile Switching Center ( **MSC** ) is replaced by an exchange with two junctions:

- the MSC server controlling and supervising the MGW (Media GateWay) equipment;
- the MGW for traffic switching and media adjustment.

This innovation will make it possible to implement an integrated GSM/UMTS network, which, with time and the necessary measures in terms of size and operations, will eventually create a configuration where the switching exchange is shared by the GSM and UMTS access systems; the aim of which is to improve management of the service leading to a seamless provision of services.

At December 31, 2009, the GSM network includes: 26 MSC exchanges, 10 transit exchanges and 9 gateways.

At December 31, 2009, the GSM/UMTS network includes: 61 MSC servers, 82 MGWs, 48 Home Location Registers ( **HLRs** ), 20 Gateway GPRS Support Nodes ( **GGSNs** ) and 48 Serving GPRS Support Nodes ( **SGSN** ).

***International Fixed Network***

Telecom Italia Sparkle manages international wholesale services (Voice, Data and IP) and retail services for multinational customers by means of an international network including:

- a fully integrated proprietary cross border backbone operating mainly in Europe and in the United States;
- bilateral connections.

The coverage of the Mediterranean and of Central and South America is provided by the interconnection with MED Nautilus and LA Nautilus backbones.

The international network connects more then 400 operators all over the world with a span of approximately 434,500 Km on submarine systems reaching all the main regions worldwide.

The cross-border backbone integrates 3 regional networks:

- Europe (**PEB**);
- Latin America (**LAN**);
- Mediterranean basin (**MED**).

In detail:

- **PEB (Pan European Backbone).** Proprietary fiber optic network spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic and Slovakia. The overall length of the entire backbone is 55,000 km.

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The backbone is a multiservice integrated network (Voice, Data, IP) based on DWDM (Dense Wavelength Division Multiplexing) and SDH (Synchronous Digital Hierarchy) transport techniques and on the Softswitch and IP/MPLS (Internet Protocol/Multi Protocol Label Switching) switching techniques. With respect to switching technologies, the network is equipped with class 4 softswitches and IP routers. The DWDM and SDH transmission technologies are based on 10 Gbit/s lambdas with traffic protection mechanisms such as MS SPRING (Multiplex Section Shared Protection Ring), SNCP (Sub Network Connection Protection), MSP (Multi Section Protection) and meshed network.

- **LAN (Latin American Nautilus).** High-capacity backbone based on fiber optic ring networks, terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring, which has automatic optical traffic protection and a capacity up to 320 Gbit/s, connects the main cities of South America to Central and North America.

- **MED (Mediterranean Nautilus).** Submarine ring network, with a highly reliable configuration, a total length of 7,000 km and a capacity up to 3.84 Tbit/s connecting the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa and Tel Aviv.

The services supplied include telephone, IP and managed bandwidth in Europe and in the U.S.A., and managed bandwidth and IP in the Mediterranean and in South America. The platform for services to Multinational Corporate Clients ( **MNC** ) is integrated with the crossborder network.

In 2009 the Pan European Backbone was upgraded in order to keep up with the IP/Data traffic growth. New metro rings have been deployed in London and Frankfurt while capacity has been increased on the Paris and Amsterdam city rings towards the main telehouses. As for the IP backbone, the trunks among main POPs have been upgraded and new Terabit Routers have been deployed in London and Milan. New IP POPs have also been added to the backbone in Catania, Bucharest and Istanbul while the Telecom Italia Sparkle North America subsidiary expanded the trunks connecting Dallas, Los Angeles, Chicago and Palo Alto POPs.

In order to increase connectivity towards Africa, the Mediterranean and the Middle and Far East countries, upgrades of the SAT-3, SEA-ME-WE3 and SEA-ME-WE4 submarine cables have been implemented. The connectivity among main cable stations and the POPs of the Pan-European cross-border backbone has been expanded as well.

In 2009 the VoIP (Voice over IP) capabilities have been expanded with a new softswitch and additional SBC (Session Border Controller) equipments to cope with traffic increase. Upgrades and new capabilities have also been deployed on the platform handling pre-paid traffic.

Actions to complete the services portfolio for mobile operators have included the introduction of Roaming Hub and Roaming Recharge.

As for the service portfolio for multinational customers, network upgrades have been implemented in the London, Brussels, Milan, Newark, Frankfurt and Paris POPs.

***Brazilian Network***

Telecom Italia Group s principal properties in Brazil consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment.

As of December 31, 2009, we had 95 mobile switches and 10,775 radio base stations. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

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Item 4A. Unresolved Staff Comments

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

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Item 5. Operating And Financial Review And Prospects Restatement Due To Errors

## Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.*

### 5.1 RESTATEMENT DUE TO ERRORS

On February 24, 2010, we announced that we were postponing the approval of our financial statements due to the issuance of the Rome court Order relating to Telecom Italia Sparkle, which consisted of over 1,600 pages collected as evidence over four years using powers and authority only available to the Prosecutor (the **Order** ). The ongoing criminal investigation involving Telecom Italia Sparkle and the Order which was served on Telecom Italia Sparkle on February 23, 2010 alleges that a number of former directors, former employees and current employees of Telecom Italia Sparkle committed crimes of cross-border criminal conspiracy, tax evasion, international money-laundering, reinvestment of profits from criminal activities, and registering assets under false names.

As part of the proceedings, the Rome Judge issued a seizure order for 298 million euros, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation. In addition to the amounts seized, Telecom Italia Sparkle, as detailed in Note *Contingent liabilities, other information, commitments and guarantees* in the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, provided guarantees for 195 million euros, of which 72 million euros corresponds to the potential seizure of profits generated by the sales transactions noted above, and 123 million euros corresponds to the difference between the amount already seized and corresponding to the VAT deducted during tax years 2005, 2006 and 2007 (298 million euros), and the highest amount Telecom Italia Sparkle could potentially owe in settlement of its tax position regarding the use of VAT credits on the basis of one of the possible settlement procedures with the Italian Tax Authorities.

The sales transactions effected in the financial years 2005, 2006 and 2007, related to Premium telecommunications services carried over the Telecom Italia Sparkle network and were conducted with a number of small telecommunications carriers resident in the European Union (EU).

**Internal investigation 2007**

In November 2006, the Rome Judge that issued the Order interviewed a number of Telecom Italia Sparkle officials, directors and employees in connection with the Prosecutor s investigation of a VAT fraud alleged to have been committed by a number of Italian telecommunications operators, including the clients and suppliers identified in the Order. Soon after Telecom Italia became aware of the judicial investigation, in January 2007 Telecom Italia Sparkle, at the request of Telecom Italia, launched an internal investigation into contracts and commercial relations with these particular clients and suppliers. On completion of the internal investigation, in June 2007, commercial relations with the above-mentioned parties were terminated. As part of the investigation, and with the assistance of independent tax consultants, Telecom Italia assessed its VAT position and particularly the tax paid with regard to the above-mentioned commercial transactions. The full extent of the alleged VAT fraud was not detected at the time, and, as a result, the conclusion of the investigation was that deduction of VAT on these purchases was appropriate.

**Events subsequent to receipt of Order**

Analyses and information acquired since the Order have provided additional facts for assessment of the events under investigation and the analysis undertaken in the past, adding information which has become available through investigations undertaken by the Rome Prosecutors. Subsequent to the issue of the Order, independent legal and accounting advisors were appointed to conduct a documentary investigation for the period 2005 and 2009 in order to discover whether events of the kind alleged by the Order took place. Voice traffic data and relative costs and revenues were analyzed for the years 2005-2009 with particular focus on Telecom Italia Sparkle. Documentary analysis, covering this same period, was also conducted on traffic contracts (numbering around 500), for voice traffic in particular, with mainly established industry participants, other than major telecommunications companies and the Telecom Italia Group companies. The contracts were subject to comparative analysis (against contractual practice with other operators) and the biggest contracts were individually analyzed.

The contracts at the centre of the ongoing criminal proceedings were excluded from the documentary investigation in order to avoid interfering with the Rome Prosecutor s inquiries.

The analysis did not cover correspondence, e-mails or other written communications nor were company employees interviewed, though the advisors did consult with management for the exclusive purpose of clarifying aspects of their investigation and findings. This was due in part to restrictions imposed by the ongoing criminal investigation, as well as due to restrictions imposed by labour and privacy laws, although such restriction did not impact the sufficiency of the investigation.

As regards voice traffic and related costs and revenues, the analysis focused mainly on situations that presented similar features to those alleged by the Prosecutor, including:

(i) high unit value traffic flows;

(ii) traffic received from foreign counterparts and delivered to counterparts in Italy;

(iii) high concentration traffic;

(iv) traffic destined for countries with favorable tax regimes (destination and counterparts); and

(v) payments made in countries other than the country of domicile of the contractual counterparts, as well as to counterparts resident in countries with a risk of money laundering.

The main findings which arose from the documentary investigation were the following:

- with respect to the larger contracts in terms of costs and revenues, the investigation did not find any evidence that they were entered into other than in the ordinary course of business; and

- with respect to certain traffic data and related costs and revenues for the years 2005, 2006 and 2007, the advisors found that in a number of cases, mainly in 2005, certain anomalies occurred in relation to the destination and routing of traffic flows which had an impact on the revenues and costs of Telecom Italia Sparkle totaling approximately 52 million euros, of which 47 million euros related to the reciprocal delivery and receipt to/from other European carriers of specific volumes of similar and non-differentiated traffic destined for non-EU counterparts with equal costs and revenues.

The findings of the internal investigation were presented to the Board of Statutory Auditors and the Company s Board of Directors, and taken into account in connection with the Board of Directors approval, on April 12, 2010, of the Group s consolidated financial statements.

Drawing upon information available under the Order (Italian law does not allow disclosure of any information acquired by a public prosecutor using rights, powers and means available solely to magistrates until completion of the investigation) along with data acquired as part of the independent documentary investigation described above, Telecom Italia concluded that a number of transactions in the financial years 2005, 2006 and 2007 were affected by certain anomalies such that certain transactions and traffic were without substance, and, in addition, there were certain anomalies relating to the destination and routing of some traffic, to such an extent that Telecom Italia now believes that these transactions resulted in errors as defined under IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*).

Therefore, in compliance with IAS 8, but without prejudice to any rights and remedies available to Telecom Italia Sparkle under Law 231, Telecom Italia is restating the revenues and costs recorded in 2005, 2006 and 2007 for these transactions as follows:

- **2005-2007:** adjustments of revenues and costs for the transactions identified; the surplus of revenues over costs has been adjusted and accrued as a provision for risks and charges under Trade and miscellaneous payables and other current liabilities in regard to legal risks and charges connected with this matter;

- **2005-2007:** provisions for risks and charges included under Trade and miscellaneous payables and other current liabilities for further tax risks and charges (including those related to the documentary investigation amounting to 12 million euros, of which 11 million euros for improperly deducted VAT and 1 million euros for penalties);

- **2005-2009:** provisions for risks and charges concerning legally-applicable interest associated with the above provisions for the year to which they apply (including those related to the documentary investigation amounting to 2 million euros).

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As described in our consolidated financial statements included elsewhere in this Annual Report, after making the foregoing adjustments and provisions, the data for the 2008 and 2007 financial statements used in comparisons have been restated. The total amount set aside in provision for risks and charges, recognized against Equity attributable to Owners of the Parent, amounts to 487 million euros as at January 1, 2008, 497 million euros as at December 31, 2008, and 507 million euros as at December 31, 2009.

The adjustments and provisions made are summarized as follows:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007(*) | 2006(*) | 2005(*) | Total |
| | | | (millions of euros) | | | |
| · Adjustment to Revenues and Other income | | | (168) | (754) | (323) | (1,245) |
| · Adjustment to Acquisition of goods and services | | | 155 | 707 | 311 | 1,173 |
| · Other operating expenses (Provision charges for indirect taxes (VAT) and fines) | | | (70) | (256) | (77) | (403) |
| **IMPACT ON OPERATING PROFIT** | | | **(83)** | **(303)** | **(89)** | **(475)** |
| · Finance expenses (Provision charges for interest on VAT) | (10) | (10) | (8) | (4) | | (32) |
| **IMPACT ON PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT** | **(10)** | **(10)** | **(91)** | **(307)** | **(89)** | **(507)** |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (millions of euros) | | | | |
| **IMPACT ON EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **(507)** | **(497)** | **(487)** | **(396)** | **(89)** |
| Trade and miscellaneous payables and other current liabilities (Provisions for risk and charges)(1) | 507 | 497 | 487 | 396 | 89 |
| **IMPACT ON TOTAL CURRENT LIABILITIES** | **507** | **497** | **487** | **396** | **89** |

(*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the consolidated financial statements included elsewhere in this Annual Report.

(1) The adjustments made do not impact the other statement of financial position line items.

Restated adjusted data are as follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007(*) | 2006(*) | 2005(*) |
| | (millions of euros) | | | | |
| Revenues | 27,163 | 29,000 | 29,802 | 29,785 | 29,193 |

| | | | | | |
|---|---|---|---|---|---|
| **Total operating revenues and other income** | **27,445** | **29,336** | **30,185** | **30,358** | **29,861** |
| Acquisition of goods and services | (11,480) | (13,120) | (13,442) | (12,876) | (12,253) |
| Other operating expenses | (1,616) | (1,631) | (2,268) | (1,769) | (1,524) |
| **Operating profit** | **5,493** | **5,437** | **5,738** | **7,269** | **7,548** |
| Finance income (expenses) | (2,170) | (2,611) | (2,183) | (2,191) | (2,058) |
| **Profit for the year** | **1,596** | **2,178** | **2,360** | **2,696** | **3,601** |
| *Attributable to owners of the Parent shareholders* | *1,581* | *2,177* | *2,353* | *2,707* | *3,127* |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (millions of euros) | | | | |
| **Equity attributable to owners of the Parent** | **25,952** | **25,598** | **25,431** | **25,622** | **25,573** |

(*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the consolidated financial statements included elsewhere in this Annual Report.

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For further details please see paragraphs one through three of the Restatement section of the Note *Restatement as a result of errors and changes in accounting policies* and Note *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS** ). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of assumptions and estimates that underlay the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results may differ from these estimates under different assumptions or conditions. Estimates are reviewed periodically.

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of Management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

**Revenue recognition**

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· *Revenues from services rendered*

Revenues from services rendered are recognized in the separate income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.

Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). To determine the expected duration of the relationship of the customers we perform an analysis of our historical customer relationship trends.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

· *Revenues from sales and bundled offerings*

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

When an arrangement contains multiple elements (equipment and/or services), revenues are allocated to each element based on its relative fair value. For offerings that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract, when other revenue recognition criteria are met.

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For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

A small portion of our bundled offerings in the mobile business are contracts with a minimum contractual period of 12 or 24 months and which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· *Revenues on construction contracts*

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

**Allowance for doubtful accounts**

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

**Accounting for tangible and intangible non-current assets**

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on Management s judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

**Acquisition accounting, goodwill and purchase price allocation**

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long-term impact on the separate income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities assumed.

The purchase price allocation requires that all assets and liabilities be valued and that significant estimates be made. A change in any of these estimates or judgments could change the amount to be allocated to a particular intangible or tangible asset. The resulting change in the purchase price allocation to non-goodwill assets or liabilities has a direct impact on the final amount of the purchase price that cannot be allocated to a particular asset (i.e., goodwill).

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If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the separate income statement.

**Accounting for transactions on interests in group companies**

We have entered into certain transactions on interests in Group companies, and in the future we may make further similar transactions.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

Before 2009, in relation to transactions regarding interest in companies already controlled, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 *(Accounting Policies, Changes in Accounting Estimates and Errors*), we have applied the following accounting treatments (consistent with the Parent entity extension method):

- *acquisition of interests in companies after control is obtained:* on acquisition, the Group pays a consideration to the non-controlling interests and adjusts the non-controlling and controlling interests and records a Goodwill equal to the excess of the consideration paid over the carrying amount of the corresponding portion of assets and liabilities acquired;
- *sale of interests in companies while control is retained:* the difference between the consideration received and the corresponding carrying amount in the consolidated financial statements is recognized in the separate income statement.

As far as intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 *(Accounting Policies, Changes in Accounting Estimates and Errors*), we have applied the following accounting treatment: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. Equity attributable to the non-controlling interests which does not directly take part in the transaction is adjusted to reflect the change with a corresponding opposite effect on the equity attributable to the owners of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

**Impairment of assets**

The determination of impairments of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

· ***Goodwill.*** Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The impairment test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

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To test for impairment, goodwill is allocated, at the date of acquisition, to each of the cash-generating units or groups of cash-generating units that is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units), to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows generally cover a period of 3 years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates. For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

- **Intangible and tangible assets with a finite useful life.** At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. When indicators of an impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate income statement. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets, groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

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**Financial assets**

Financial assets include, in particular, investments some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment s carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and relies heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

**Derivative financial instruments**

Telecom Italia enters into several different types of derivative contracts in order to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the separate income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time as the hedged transaction affects the separate income statement. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. We rely on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

**Employee severance indemnities**

Employee severance indemnities are a form of post employment benefit, mandatory for Italian companies. They have the nature of deferred compensation and are based, among other things, on the employee s years of service and the remuneration earned by the employee during the service period.

Under IAS 19, the employee severance indemnity is classified as a defined benefit plan, except when employees, starting from the year 2007, choose to devote their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the State Social Security Institute (INPS); in such case employee severance indemnity is classified as a defined contribution plan.

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit costs may be materially affected.

**Provisions and contingent liabilities**

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such

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judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

**Income tax expense**

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company s ability to generate sufficient taxable income in future years and the reversal of temporary liabilities, taking into account any restrictions on the carryforward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate income statement.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2009

## 5.3 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2009

### 5.3.1 Significant Trends Impacting Our Core Businesses

Increased competition continues to have a significant impact on the development of our business.

Key trends that have had an impact on our business areas and are expected to continue to have an impact are:

*Domestic Business Unit*

- defense of Domestic Market share and focus on quality as a value driver through the implementation of the customer driven organization;
- continuing defense of core traffic and access businesses with possible stabilization of market share on both Fixed and Mobile Telecommunications;
- convergence of services such as fixed and mobile voice offers, fixed and mobile BroadBand accesses, integrated accesses to messaging and content;
- growth of the Italian BroadBand market on both Fixed and Mobile Telecommunications;
- development of innovative services such as integrated voice-BroadBand (double play) and integrated voice-BroadBand-IPTV (triple play);
- growth of the ICT Market through the introduction of new services and products;
- the full implementation of the open Access network increasing transparency and access to the fixed network by OLOs.

*Brazil*

- Tim Participações S.A. will consolidate the Company s competitive positioning, especially in the corporate segment and data transmission offerings, reducing media lease costs and promoting the 3G network development also thanks to the merger, on December 30, 2009, with Holdco Participações Ltda, a company that had the 100% of the capital stock of Intelig Telecomunicações

Ltda. Intelig is a company with a strong metropolitan network of optical fibers in the largest Brazilian cities, plus an extensive long-distance network infrastructure (Backbone).

#### 5.3.2 Reorganization of Business

The data of the Telecom Italia Group is presented in this 2009 Annual Report according to the following operating segments:

- **Domestic** Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the relative support activities;
- **Brazil** Business Unit: includes telecommunications operations in Brazil;
- **Media** Business Unit: includes television network operations and management;
- **Olivetti** Business Unit: includes activities for the manufacture of digital printing systems and office products; and
- **Other operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Furthermore, as a result of including HanseNet in Discontinued operations in 2009, the European BroadBand Business Unit is no longer presented as a separate segment. The other companies of that business unit have become part of Other operations. For purposes of comparison, the separate consolidated income statement, the consolidated statement of comprehensive income and the consolidated statements of cash flows data have been appropriately restated for the various comparative periods.

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For a complete description of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units . For purposes of the following discussion selected financial data of each Business Unit has been provided for 2009, 2008, and 2007 consistent with the structure of each Business Unit at December 31, 2009.

### 5.3.3 Non-GAAP Financial Measures

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures ( **Non-GAAP Measures** ).

Such financial data is considered Non-GAAP financial measures as defined in Item 10 of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measures used relate to Net Financial Debt.

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**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 (Restated) |
| | (millions of euros) | |
| **GROSS FINANCIAL DEBT** | | |
| **Non-current financial liabilities (Long-term debt)** | | |
| Bonds | 26,369 | 25,680 |
| Amounts due to banks, other financial payables and liabilities | 8,818 | 9,134 |
| Finance lease liabilities | 1,565 | 1,713 |
| | **36,752** | **36,527** |
| **Current financial liabilities (Short-term debt), excluding financial liabilities relating to Discontinued operations/Non-current assets held for sale** | | |
| Bonds | 3,667 | 4,497 |
| Amounts due to banks, other financial payables and liabilities | 3,069 | 1,496 |
| Finance lease liabilities | 250 | 274 |
| | **6,986** | **6,267** |
| **Financial liabilities relating to Discontinued operations/Non-current assets held for sale** | **659** | |
| **GROSS FINANCIAL DEBT (A)** | **44,397** | **42,794** |
| **FINANCIAL ASSETS** | | |
| **Non-current financial assets** | | |
| Securities other than investments | 15 | 15 |
| Financial receivables and other financial assets | 1,092 | 2,648 |
| | **1,107** | **2,663** |
| **Current financial assets, excluding financial assets relating to Discontinued operations/Non-current assets held for sale** | | |
| Securities other than investments | 1,843 | 185 |
| Financial receivables and other current financial assets | 1,115 | 491 |
| Cash and cash equivalents | 5,504 | 5,416 |

| | | |
|---|---|---|
| | **8,462** | **6,092** |
| **Financial assets relating to Discontinued operations/Non-current assets held for sale** | **81** | |
| **FINANCIAL ASSETS (B)** | **9,650** | **8,755** |
| **NET FINANCIAL DEBT (A-B)** | **34,747** | **34,039** |

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2009

### 5.3.4 Overview of 2009 Results of Operations

In 2009, we achieved the following in our domestic market:

- in the **Domestic Fixed Telecommunications Services Business** BroadBand and ICT were the two areas of growth. In particular in the BroadBand business the strategy premised on attracting the most valuable customers progressed: the BroadBand portfolio at the end of December 2009 had around 7 million accesses. In addition, we launched new integrated solutions such as VoIP services (offers that included the first naked triple-play offer): Alice Casa reached approximately 620,000 accesses at December 31, 2009 and a penetration of approximately 9% of the overall BroadBand customer base.

In the ICT segment we posted approximately 10% growth year over year (of which 14% growth in services, accounting for 61% of revenues mix) due to specific turn-key offers for the Corporate and SME segment.

In the traditional Telephone business, we have been affected by a significant decrease in our customer base and traffic volumes due to increased competition. It is worth noting, however, that in the fixed line access business, where we retain a 71% market share, we strongly reduced line losses compared to 2008 (1,254 thousand line losses in 2009 compared to 1,861 thousand line losses in 2008).

In the traditional telephone business the main strategy is to increase penetration of flat-rate voice packages and the proposition of the quoted integrated voice-BroadBand offers.

- In the **Domestic Mobile Telecommunications Services** our strategy to increase customer portfolio value by focusing on services rather than on handset revenues; the number of mobile handsets sold fell significantly from 7.9 million in 2008 to approximately 4.8 million in 2009 (posting a 44% decline in the related revenues year on year). The decline was attributable to a reduction in the level of subsidies offered to customers which improved the profit margins for new customers. This change in sales strategy was partially responsible for the decline in customers in 2009. At the same time we protected our mobile broadband active portfolio, resulting in approximately 5 million web (+ blackberry) and wap users (+34% year on year).

In 2009, we achieved the following with respect to our international markets:

- **Brazil.** Tim Brasil s customer base grew in 2009 (+4.7 million clients compared to 2008), with its market share stabilizing after 18 months of continuing erosion at 23.6%. In terms of Value Market Share (share in service revenues) Tim Brasil was the second Brazilian mobile operator (26%). Tim Brazil also reversed the trend of post-paid clients that in 2009 accounted for 15.7% (18.1% in 2008) of the total subscriber base, with 6,452 thousand post-paid customers.

Tim Brasil continued to focus on growth together with cost discipline through initiatives to maintain ARPU (average revenue per user) levels, increase revenue from value-added services, increase traffic volumes/usage and network service quality. On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analyses and operating expenses.

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**Item 5. Operating And Financial Review And Prospects** **Results Of Operations For The Three Years Ended December 31, 2009**

The following table sets forth the separate consolidated income statement for the years ended December 31, 2009, 2008 and 2007.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | (millions of euros) | |
| Revenues | 27,163 | 29,000 | 29,802 |
| Other income | 282 | 336 | 383 |
| **Total operating revenues and other income** | **27,445** | **29,336** | **30,185** |
| Acquisition of goods and services | (11,480) | (13,120) | (13,442) |
| Employee benefits expenses | (3,734) | (4,114) | (3,715) |
| Other operating expenses | (1,616) | (1,631) | (2,268) |
| Changes in inventories | (15) | 113 | 11 |
| Internally generated assets | 515 | 506 | 524 |
| Depreciation and amortization | (5,551) | (5,676) | (5,518) |
| Gains (losses) on disposals of non-current assets | (59) | 35 | 5 |
| Impairment reversals (losses) on non-current assets | (12) | (12) | (44) |
| **Operating profit** | **5,493** | **5,437** | **5,738** |
| Share of profits (losses) of associates and joint ventures accounted for using the equity method | 67 | 64 | 86 |
| Other income (expenses) from investments | (51) | 4 | 479 |
| Finance income | 2,561 | 3,748 | 2,912 |
| Finance expenses | (4,731) | (6,359) | (5,095) |
| **Profit before tax from continuing operations** | **3,339** | **2,894** | **4,120** |
| Income tax expense | (1,121) | (677) | (1,661) |
| **Profit from continuing operations** | **2,218** | **2,217** | **2,459** |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | (622) | (39) | (99) |
| **Profit for the year** | **1,596** | **2,178** | **2,360** |
| *Attributable to:* | | | |
| · *Owners of the Parent* | *1,581* | *2,177* | *2,353* |
| · *Non-controlling interests* | *15* | *1* | *7* |

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2009

### 5.3.5 Business Unit Financial Data

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

Owing to the sale of the BroadBand business in Germany, which was completed on February 16, 2010, HanseNet was classified in Discontinued Operations while the other companies in the European BroadBand Business Unit have become part of Other Operations. Consequently, the data relating to 2008 and 2007 have been reclassified and presented consistently with the 2009 presentation.

| | | Domestic | Brazil | Media | Olivetti | Other Operations | Adjustments and eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| | | (millions of euros, except number of employees) | | | | | | |
| Revenues(1) | 2009 | 21,662 | 5,022 | 230 | 350 | 158 | (259) | 27,163 |
| | 2008(2) | 23,227 | 5,208 | 287 | 352 | 218 | (292) | 29,000 |
| | 2007(2) | 24,034 | 4,990 | 263 | 408 | 328 | (221) | 29,802 |
| Operating profit (loss) | 2009 | 5,394 | 209 | (80) | (19) | (34) | 23 | 5,493 |
| | 2008(2) | 5,405 | 189 | (113) | (37) | (15) | 8 | 5,437 |
| | 2007(2) | 5,660 | 150 | (117) | (66) | 59 | 52 | 5,738 |
| Capital expenditures | 2009 | 3,523 | 964 | 53 | 4 | 8 | (9) | 4,543 |
| | 2008(2) | 3,658 | 1,348 | 50 | 3 | 26 | (45) | 5,040 |
| | 2007(2) | 4,064 | 865 | 69 | 8 | 30 | (5) | 5,031 |
| Number of employees at year-end(3) | 2009 | 58,736 | 9,783 | 757 | 1,098 | 1,010 | | 71,384 |
| | 2008(2) | 61,816 | 10,285 | 967 | 1,194 | 1,058 | | 75,320 |
| | 2007(2) | 64,362 | 10,030 | 1,016 | 1,279 | 2,551 | | 79,238 |

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The data for the years ended December 31, 2008 and 2007 have been restated as a result of the correction of errors due to the Telecom Italia Sparkle case and the changes in accounting principles (IFRIC 13) as well as for comparison purposes.

(3) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2009

### 5.3.6 Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

The following chart summarizes the main items which impacted profit attributable to owners of the Parent in 2009:

v **Revenues**

**Revenues** amounted to 27,163 million euros in 2009, a decrease of 1,837 million euros, or 6.3%, compared to 29,000 million euros in 2008.

The table below sets forth for the periods indicated gross revenues and consolidated revenues by Business Unit.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Changes | |
| | Gross revenues(1) (a) | % of Consolidated revenues | Gross revenues(1) (b) | % of Consolidated revenues | (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| Domestic | 21,662 | 79.7 | 23,227 | 80.1 | (1,565) | (6.7) |
| Brazil | 5,022 | 18.5 | 5,208 | 18.0 | (186) | (3.6) |
| Media, Olivetti and Other Operations(2) | 738 | 2.7 | 857 | 3.0 | (119) | (13.9) |
| *Adjustments and eliminations* | *(259)* | *(0.9)* | *(292)* | *(1.1)* | *33* | *11.3* |
| **Total Revenues** | **27,163** | **100%** | **29,000** | **100%** | **(1,837)** | **(6.3)** |

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

For the domestic market, Telecom Italia Group has adopted a new *customer centric* organization; this change involved a new manner of representing the Domestic Business Unit. For more details, please see 4.2 Business Units 4.2.1 Domestic .

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The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) was adversely impacted by the weak domestic economy in 2009, although the reduction in fixed telephone market revenues was less affected than the mobile telephone business where revenues have fallen compared to the previous year.

In particular, the change in Core Domestic Revenues during 2009 reflects the following:

- a contraction in Consumer segment revenues (-1,196 million euros, -9.8%), attributable in part to business areas with low margins (in particular: mobile segment product revenues -407 million euros and mobile segment content revenues -61 million euros) while growth was reported for Broadband in both fixed (+114 million euros, +13%) and mobile (+42 million euros, +12%) areas;

- a fall in Business segment revenues (-394 million euros, -9.6%), which, to a greater extent than the other markets, was hurt by the decline in consumption owing to the weak economic conditions during 2009 and the contrasting impact of competition in the fixed telephony area, particularly regarding Telecom Italia s customer win-back procedure. Nevertheless, positive trends were seen in the stability of fixed internet revenues and growth in mobile browsing revenues;

- a limited reduction in the Top segment (-3.4%) driven by strong growth in ICT solutions (+15.3%), stable mobile revenues, offset by a decrease in revenues in the fixed line business; and

- a significant increase in the National Wholesale segment (+258 million euros, +14.8%) generated by the growth of the customer base of alternative operators.

With respect to the Brazil Business Unit, revenues totaled 5,022 million euros in 2009, 186 million euros lower than in 2008. The positive trend in VAS revenues, attributable to growth in the customer base (+4.7 million lines compared to the end of 2008) was offset by the fall in sales of handsets and products.

For an in-depth analysis of revenue performance by individual Business Unit, reference should be made to The Business Units of the Telecom Italia Group .

v **OTHER INCOME**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Late payment fees charged for telephone services | 71 | 86 | (15) | (17.4) |

| | | | | |
|---|---|---|---|---|
| Recovery of costs for employees, purchases and services rendered | 46 | 51 | (5) | (9.8) |
| Capital and operating grants | 49 | 42 | 7 | 16.7 |
| Damage compensations, penalties and sundry recoveries | 30 | 64 | (34) | (53.1) |
| Sundry income | 86 | 93 | (7) | (7.5) |
| **Total other income** | **282** | **336** | **(54)** | **(16.1)** |

v **Operating expenses**

Our operating expenses amounted to 21,952 million euros in 2009, a reduction of -8.1% compared to 23,899 million euros in 2008 (-1,947 million euros). The decrease is attributable to the following:

· **Acquisition of goods and services** amounted to 11,480 million euros in 2009, a decrease of 1,640 million euros, or -12.5% compared to 2008 (13,120 million euros) partly due to favorable exchange rates (the Brazilian real and the Euro) related to the Brazil Business Unit (-99 million euros). There was a reduction of costs across all areas of expenses (commercial and advertising costs increased slightly), particularly with respect to the portion of revenues to be paid to other operators and purchases of goods by the Domestic Business Unit and the Brazil Business Unit.

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In detail:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Acquisition of raw materials and merchandise | 1,852 | 2,707 | (855) | (31.6) |
| Portion of revenues to be paid to other operators and interconnection costs | 4,282 | 4,927 | (645) | (13.1) |
| Commercial and advertising costs | 2,012 | 1,971 | 41 | 2.1 |
| Power, maintenance and outsourced services | 1,254 | 1,280 | (26) | (2.0) |
| Rent and leases | 572 | 572 | | |
| Other service expenses | 1,508 | 1,663 | (155) | (9.3) |
| **Total acquisition of goods and services** | **11,480** | **13,120** | **(1,640)** | **(12.5)** |
| *% on Revenues* | *42.3* | *45.2* | | |

· **Employee benefits expenses**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| **Employee benefits expenses Italian companies:** | | | | |
| · Expenses and costs of Ordinary employees | 3,467 | 3,518 | (51) | (1.5) |
| · Expenses for collective dismissal procedure (mobility) under Law 223/91 | | 292 | (292) | (100) |
| **Total employee benefits expenses Italian companies** | **3,467** | **3,810** | **(343)** | **(9.0)** |
| **Total employee benefits expenses Foreign companies** | **267** | **304** | **(37)** | **(12.2)** |
| **Total employee benefits expenses** | **3,734** | **4,114** | **(380)** | **(9.2)** |
| *% on Revenues* | *13.7* | *14.2* | | |

The decrease of 51 million euros in the Italian component of ordinary employee benefit expenses was mainly due to lower costs arising from the reduction in the average number of the salaried workforce (-2,821 units compared to 2008, within the same scope of consolidation). The reduction was offset by the continuing effect of the increase in the minimum labor contract terms from June 2008 and the effect of the renewal of the TLC collective national labor contract in October 2009.

In particular, employee benefits expenses in 2008 included the expenses for mobility agreements under Law 223/91 applying to collective dismissals (292 million euros) related to the Parent Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A., Olivetti S.p.A. and Olivetti I-Jet S.p.A.

With respect to the Group s foreign companies, ordinary employee benefits expenses decreased by 37 million euros due to a decrease in the number of average workforce (-352 units compared to 2008, within the same scope of consolidation) and positive exchange rate effects of the Brazil Business Unit (-8 million euros) as well as the exclusion from the scope of consolidation of Entel Bolivia Group (-4 million euros).

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The Group s average number of salaried workforce for the periods indicated was as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (equivalent number, except percentages) | | | |
| Average salaried workforce Italy | 60,324 | 63,145 | (2,821) | (4.5) |
| Average salaried workforce Foreign(1) | 9,640 | 10,363 | (723) | (7.0) |
| **Total average salaried workforce**(2) | **69,964** | **73,508** | **(3,544)** | **(4.8)** |
| Non-current assets held for sale Foreign(3) | 2,168 | 3,277 | (1,109) | (33.8) |
| **Total average salaried workforce including Non-current assets held for sale** | **72,132** | **76,785** | **(4,653)** | **(6.1)** |

(1) The change compared to 2008 takes into account the exclusion of Entel Bolivia group s average headcount of 371 employees.

(2) The total includes people with temporary work contracts 316 average employees in 2009 (of which 279 average employees in Italy and 37 average foreign employees); 1,073 average units in 2008 (of which 1,013 average employees in Italy and 60 average foreign employees).

(3) The 2009 data include the average salaried headcount of HanseNet (2,168 units); in 2008 included the average salaried headcount of HanseNet (2,520 units) and the Liberty Surf Group, sold at the end of August 2008 (757 units).

Group s employees at December 31, 2009 and 2008 were as follows:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (units, except percentages) | | | |
| Employees Italy | 60,872 | 64,242 | (3,370) | (5.3) |
| Employees Foreign | 10,512 | 11,078 | (566) | (5.1) |
| **Total Employees**(1) | **71,384** | **75,320** | **(3,936)** | **(5.2)** |
| Non-current assets held for sale Foreign | 2,205 | 2,505 | (300) | (12.0) |
| **Total Employees including Non-current assets held for sale** | **73,589** | **77,825** | **(4,236)** | **(5.4)** |

(1) Includes employees with temporary work contracts: 56 units at December 31, 2009 (of which 43 units in Italy and 13 Foreign units); and 782 units at December 31, 2008 (of which 721 units in Italy and 61 Foreign units).

The foreign employees at December 31, 2009 included 580 units as a result of the entry of Intelig Telecomunicações Ltda in the scope of consolidation of the Brazil Business Unit.

· **Other operating expenses**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Impairments and expenses in connection with credit management | 565 | 687 | (122) | (17.8) |
| Accruals to provisions | 168 | 74 | 94 | 127.0 |
| Indirect duties and taxes | 128 | 139 | (11) | (7.9) |
| TLC operating fees | 318 | 315 | 3 | 1.0 |
| Taxes on revenues of Brazilian companies | 271 | 282 | (11) | (3.9) |
| Penalties, compensation and administrative sanctions | 73 | 63 | 10 | 15.9 |
| Association dues and fees, donations, scholarships and traineeships | 26 | 26 | | |
| Sundry expenses | 67 | 45 | 22 | 48.9 |
| **Total other operating expenses** | **1,616** | **1,631** | **(15)** | **(0.9)** |
| *% on Revenues* | *5.9* | *5.6* | | |

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The reduction in other operating expenses in 2009 compared to 2008, was partially connected with the exchange rates of the Brazil Business Units (-29 millions euros).

In particular, impairments and expenses in connection with credit management consisted of 404 million euros attributable to the Domestic Business Unit (402 million euros in 2008) and 153 million euros to the Brazil Business Unit (280 million euros in 2008).

Accruals to provisions, recorded mainly for pending disputes, included 136 million euros relating to the Domestic Business Unit (31 million euros in 2008) and 25 million euros relating to the Brazilian Business Unit (36 million euros in 2008).

· **Depreciation and Amortization**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes | |
| | (a) | (b) | (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Amortization of intangible assets with a finite useful life | 2,251 | 2,324 | (73) | (3.1) |
| Depreciation of tangible assets owned and leased | 3,300 | 3,352 | (52) | (1.6) |
| **Total depreciation and amortization** | **5,551** | **5,676** | **(125)** | **(2.2)** |
| *% on Revenues* | *20.4* | *19.6* | | |

The reduction in depreciation and amortization charges was mainly related to the Domestic Business Unit (-116 million euros) and, for the remaining balance, the net effect between the change in the Brazilian real/euro exchange rate (-34 million euros) and higher depreciation and amortization charges of the Brazil Business Unit.

· **Net losses on disposals of non-current assets**

Net losses on disposals of non-current assets were 59 million euros in 2009 (35 million euros of net gains on disposal of non-current assets in 2008) and include:

- a 39 million euros loss connected with the final divestiture of the credit management software developed for the fixed consumer clientele of the Domestic Business Unit;

- a loss of 11 million euros on the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A.

In 2008, net gains on disposals of non-current assets included net gains of 9 million euros mainly attributable to the disposal of the Pay-per-View business segment by Telecom Italia Media in addition to other net gains mainly on the sale of real properties.

- **Impairment losses on non-current assets** amounted to 12 million euros in 2009 (12 million euros in 2008). 2009 included 6 million euros for the impairment loss attributable to goodwill, within Other Operations , of the consolidated company BBNed following impairment testing and the remaining impairment losses were mainly taken by the Domestic Business Unit.

The impairment test for the other cash-generating units of the Telecom Italia Group indicated that the recoverable amounts exceeded the carrying amounts, therefore no additional impairment losses were recognized on goodwill.

v **Operating Profit**

**Operating profit** was 5,493 million euros in 2009, an increase of 56 million euros compared to 2008 (1.0%). As a percentage of revenues, operating profit was 20.2% in 2009 (18.7% in 2008).

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v **Share of Profits (Losses) of Associates and Joint Ventures Accounted for Using the Equity Method**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| ETECSA. | 54 | 53 | 1 | 1.9 |
| Other | 13 | 11 | 2 | 18.2 |
| **Total** | **67** | **64** | **3** | **4.7** |

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.5 International Investments , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Other Income (Expenses) from Investments**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Dividends from other investments | 2 | 3 | (1) | (33.3) |
| Net gains on disposal of other investments | 4 | 2 | 2 | 100 |
| Writedowns of Italtel group | (39) | | (39) | |
| Writedowns of other investments and other income expenses | (18) | (1) | (17) | |
| **Total** | **(51)** | **4** | **(55)** | |

Other income (expenses) from investments amounted to a negative 51 million euros in 2009 and included the writedown of 39 million euros on the 19.37% investment in the Italtel group. The amount of the investment, recorded at cost, was written off on the basis of a valuation backed by a specific report on its estimated value, conducted by an independent appraiser. Other income (expenses) from investments also included gains, net of the relative transaction expenses of 3 million euros, on the disposals, in early 2009, of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark, which were classified as Non-current assets held for sale at December 31, 2008.

v **Finance Income (Expenses)**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Fair value measurement of call options for 50% of Sofora Telecomunicaciones share capital. | 60 | (190) | 250 | 131.6 |
| Income on bond buybacks | | 62 | (62) | (100) |
| Early termination of cash flow derivatives | 22 | 19 | 3 | 15.8 |
| Writedown of receivables from Lehman Brothers | | (58) | 58 | 100 |
| Accrual to provisions for interest (Telecom Italia Sparkle case) | (10) | (10) | | |
| Net finance expenses, fair value adjustments of derivatives and underlyings and other items | (2,242) | (2,434) | 192 | 7.9 |
| **Total** | **(2,170)** | **(2,611)** | **441** | **16.9** |

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The change in finance income (expenses) was impacted by the following:

- the overall reduction in interest rates and the decrease in debt exposure and an improvement, compared to the previous year, of the impact in the fair value adjustments of the positions qualifying for hedge accounting;
- the improvement in the fair value measurement of the call options on Sofora;
- 2008 included the writedown of receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., arising on transactions in derivative instruments hedging financial risks on existing financial liabilities; and
- lower income on bond buybacks. Such bond repurchase transactions, although having no impact in terms of finance income (expenses) in 2009 (income of 62 million euros in 2008), will give rise to lower finance expenses prospectively and constitutes an efficient alternative investment of liquidity.

Furthermore, in 2009, net finance expenses included an accrual of 10 million euros (10 million euros in 2008) to the provision for risks and charges due to the Telecom Italia Sparkle case . See Section 5.1 Restatement Due to Errors .

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Income Tax Expense**

Income tax expense amounted to 1,121 million euros, an increase of 444 million euros compared to 677 million euros in 2008. 2008 benefited from the positive effect of 515 million euros due to the tax realignment of off-book deductions carried out by some Group companies pursuant to Law 244 of December 24, 2007 and the recognition of 60 million euros of deferred tax assets which became recoverable by some Group companies.

Net of this effect, income taxes posted would have declined by 131 million euros in 2009 compared to the prior year due to the following:

- lower taxes for Telecom Italia in 2009 of 143 million euros due mainly to the filing of an application for the reimbursement of prior years IRES taxes corresponding to 10% of deductible IRAP taxes, pursuant to Legislative Decree 185 of November 29, 2008, art. 6, as well as lower taxes of the prior year;
- higher 2009 income taxes (12 million euros) due mainly to a higher tax base for Telecom Italia.

v **Loss from Discontinued Operations/Non-Current Assets Held for Sale**

In 2009, this line item was a loss of 622 million euros and included:

- the writedown of the goodwill allocated to Broadband activities in Germany, accruals to provisions and other expenses relating to the disposal, on February 16, 2010, of the entire investment held in HanseNet Telekommunikation GmbH (-597 million euros);

- the negative contribution on consolidation of HanseNet of 23 million euros including the negative impacts of the amortization of the customer relationship and the audience agreement which resulted from the acquisition of the AOL internet business in Germany;

- additional expenses connected with sales transactions in previous years (-2 million euros).

In 2008, loss from discontinued operations/non-current assets held for sale was a loss of 39 million euros and included:

- the net impact of the sale of Liberty Surf group S.A.S., being the balance between the gain on the disposal and the company s negative contribution to the consolidated result (-28 million euros);

- HanseNet s negative contribution on consolidation, including an impairment loss on goodwill of 21 million euros and the net contribution of the company to the consolidated result (for a total of -10 million euros);

- additional expenses connected with sales transactions in previous years (-1 million euros).

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In detail, the reconciliation of Profit (loss) from Discontinued operations/Non current assets held for sale and the main economic and financial data of HanseNet, was as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| ***HanseNet economic impacts:*** | | | | |
| Revenues | 1,161 | 1,190 | (29) | (2.4) |
| Operating profit | (6) | 8 | (14) | |
| · *% of Revenues* | *(0.5)* | *0.7* | | |
| Finance Income (expenses) | (24) | (33) | 9 | |
| Profit before tax from Discontinued operations/Non-current assets held for sale | (30) | (25) | (5) | |
| Income tax expense | 7 | 36 | (29) | |
| **Profit from Discontinued operations/Non-current assets held for sale (A)** | **(23)** | **11** | **(34)** | |
| ***Other economic impacts:*** | | | | |
| Impairment loss on goodwill attributed to HanseNet and expenses incidental to the sale | (597) | (21) | (576) | |
| Net impact related to Liberty Surf | | (28) | 28 | |
| Expenses connected with sales in prior years | (2) | (1) | (1) | |
| **(B)** | **(599)** | **(50)** | **(549)** | |
| **Profit (Loss) from Discontinued operations/Non-current assets held for sale (A+B)** | **(622)** | **(39)** | **(583)** | |

### 5.3.7 Results of Operations of Business Units for the Year Ended December 31, 2009 Compared with the Year Ended December 31, 2008

v **Domestic**

With respect to the new customer centric organization which the Telecom Italian Group has adopted for the domestic market, the manner of representing the Domestic Business Unit has changed from the one presented in the 2008 Annual Report in which such information had been organized by fixed and mobile technology businesses. For further details regarding the new customer centric organization please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.1 Domestic .

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |

| | | | | |
|---|---|---|---|---|
| | | | **(millions of euros, except percentages and employees)** | |
| Revenues | 21,662 | 23,227 | (1,565) | (6.7) |
| Operating profit | 5,394 | 5,405 | (11) | (0.2) |
| · *% of Revenues* | *24.9* | *23.3* | | |
| Capital expenditures | 3,523 | 3,658 | (135) | (3.7) |
| Employees at year-end (units) | 58,736 | 61,816 | (3,080) | (5.0) |

**Revenues** decreased by 1,565 million euros, or 6.7%, from 23,227 million euros in 2008 to 21,662 million euros in 2009.

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In detail, an analysis of the Domestic Business Unit s revenues by market segment is as follows:

· **Core Domestic**

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues(1) | 20,579 | 22,104 | (1,525) | (6.9) |
| · *Consumer* | *10,999* | *12,195* | *(1,196 )* | *(9.8)* |
| · *Business* | *3,730* | *4,124* | *(394 )* | *(9.6)* |
| · *Top* | *3,688* | *3,819* | *(131 )* | *(3.4)* |
| · *National Wholesale* | *1,996* | *1,738* | *258* | *14.8* |
| · *Other* | *166* | *228* | *(62)* | *(27.2 )* |
| Operating profit | 5,190 | 5,163 | 27 | 0.5 |
| · *% of Revenues* | *25.2* | *23.4* | | |
| Capital expenditures | 3,434 | 3,501 | (67) | (1.9) |
| Employees at year-end (units) | 57,467 | 60,539 | (3,072) | (5.1) |

(1) Data are net of intersegment relationship.

In particular, as regards the market segments, for the year 2009, the following changes compared to 2008 are noted:

· **Consumer:** during 2009, the commercial policy of the mobile business underwent a fundamental transformation. In particular, the difficult macroeconomic climate resulted in a drop in usage by some parts of the customer base together with an increasingly competitive market required a rapid repositioning of TIM s offerings. From the traditional focus on the mobile handset as the important driver of choice by the final customer and promotion of the commercial network, there was a shift to a policy aimed at effective advertising communication, on service packages that further retain customers and a remuneration of the distribution channel linked to the quality of the customer acquired.

Specifically, the reduction in Consumer segment revenues was 1,196 million euros (-9.8%), of which 742 million euros (-6.6%) related to service revenues and 454 million euros (-49.1%) to product sales (mobile handsets in particular). The reduction in service revenues (-742 million euros) was mainly due to a decrease in revenues from fixed voice (-333 million euros, -8%) and outgoing Mobile voice (-213 million euros or -6%). This was principally due to the contraction of the customer base, the impact of the change in regulated interconnection rates, especially mobile termination revenues (down 168 million euros, of which 122 million euros was due to rate reductions) and the decrease in traditional value-added service revenues (for messaging, a reduction of 76 million euros or -9%) and content revenues (-61 million euros or -24%). Such changes in the traditional business areas were in part offset by growth of the broadband customer base and broadband service revenues in the fixed area (+114 million euros or +13%) and mobile area (+42 million euros or +12%);

· **Business:** the decrease in revenues (-394 million euros compared to 2008 or -9.6%) was mainly due to continuing economic difficulties encountered in 2009 by small and medium businesses resulting in a reduction of usage. In addition, there was a contraction in the

Customer Base: less significant than the prior year in the Fixed area but a significant increase in the Mobile area. There was a reduction in revenues in both areas: Fixed -11% and Mobile -9%, although the fourth quarter of 2009 had a lower decrease compared to the 2009 third quarter. Positive trends, however, were seen in the comparison of the two years as Fixed Broadband revenues were stable, Fixed Data Services grew (+3%) and mobile browsing revenues also increased (+16%);

- **Top:** revenue performance (-131 million euros or -3.4% year-on-year and -1.9% in the fourth quarter) was principally due to the ongoing decline in the voice and data area (-8.7% year-on-year with a decrease of 7.7% in the fourth quarter). This was also linked to the economic weakness and the consequent reduction in usage by companies. Such change was partly offset by the continual, strong growth of ICT solutions and offerings (+15.3% year-on-year and +15.3% in the fourth quarter) with an increase in market share from approximately 9.2% in December 2008 to 11.4% in December 2009. The mobile area was stable (-0.1% year-on-year and -0.1% in the fourth quarter);

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· **National Wholesale:** the increase in revenues (+258 million euros or +14.8%) was generated by the growth of the OLO (Other Licensed Operators) customer base on Local Loop Unbundling, Wholesale Line Rental and Bitstream services.

· **International Wholesale**

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Change (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 1,710 | 1,830 | (120) | (6.6) |
| · *Of which third parties* | *1,208* | *1,267* | *(59)* | *(4.7)* |
| Operating profit | 209 | 236 | (27) | (11.4) |
| · *% of Revenues* | *12.2* | *12.9* | | |
| Capital expenditures | 122 | 163 | (41) | (25.2) |
| Employees at year-end (units) | 1,269 | 1,277 | (8) | (0.6) |

In 2009, International Wholesale (Telecom Italia Sparkle group) reported revenues of 1,710 million euros, down 120 million euros compared to 2008 (-6.6%) owing to the reduction in revenues from voice services both in the captive market and with third parties. The positive performance of IP/Data, Multinational Corporations and Consulting businesses was in part offset by the above reduction in voice services.

* * *

In addition to the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below.

Revenues of the Domestic Business Unit by technology and market segment are reported below:

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 (Restated) | | | Change % | | |
| Market segment | Total | Fixed(1) | Mobile(1) | Total | Fixed(1) | Mobile(1) | Total | Fixed(1) | Mobile(1) |
| | (millions of euros, except percentages) | | | | | | | | |
| Consumer | 10,999 | 5,037 | 6,251 | 12,195 | 5,285 | 7,270 | (9.8) | (4.7) | (14.0) |
| Business | 3,730 | 2,472 | 1,315 | 4,124 | 2,765 | 1,440 | (9.6) | (10.6) | (8.7) |
| Top | 3,688 | 2,956 | 823 | 3,819 | 3,053 | 824 | (3.4) | (3.2) | (0.1) |
| National Wholesale | 1,996 | 2,758 | 194 | 1,738 | 2,320 | 107 | 14.8 | 18.9 | 81.3 |
| Other (support structures) | 166 | 174 | 14 | 228 | 162 | 46 | (27.2) | 7.4 | (69.6) |
| **Total Core Domestic** | **20,579** | **13,397** | **8,597** | **22,104** | **13,585** | **9,687** | **(6.9)** | **(1.4)** | **(11.3)** |
| International Wholesale | 1,710 | 1,710 | | 1,830 | 1,830 | | (6.6) | (6.6) | |
| *Eliminations* | *(627)* | *(368)* | | *(707)* | *(415)* | | | | |
| **Total Domestic** | **21,662** | **14,739** | **8,597** | **23,227** | **15,000** | **9,687** | **(6.7)** | **(1.7)** | **(11.3)** |

(1) The breakdown by fixed and mobile technology is presented gross of intersegment eliminations.

The performance of the major business areas was as follows:

· **Revenues from Fixed Telecommunications**

In 2009, revenues of the fixed telecommunications area amounted to 14,739 million euros, decreasing 261 million euros (-1.7%) compared to the prior year.

At December 31, 2009, the number of retail voice accesses was approximately 16.1 million (-1,255,000 accesses compared to December 31, 2008). The wholesale customer portfolio increased and at December 31, 2009 reached approximately 6.2 million accesses (+1,221,000 accesses compared to December 31, 2008). The overall access market was stable compared to December 2008.

The total broadband portfolio at December 31, 2009 is equal to 8.7 million accesses (+607,000 accesses compared to December 31, 2008), of which retail is 7.0 million and wholesale is 1.7 million.

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The trend for the main types of revenues from Fixed telecommunications was as follows.

*Retail voice*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Change | |
| | | % | | % | | % |
| | (millions of euros, except percentages) | | | | | |
| Traffic | 2,726 | 40.1 | 3,118 | 41.4 | (392) | (12.6) |
| Accesses | 3,491 | 51.3 | 3,668 | 48.8 | (177) | (4.8) |
| VAS services | 207 | 3.0 | 252 | 3.3 | (45) | (17.9) |
| Telephone products | 380 | 5.6 | 486 | 6.5 | (106) | (21.8) |
| **Total Retail Voice** | **6,804** | **100.0** | **7,524** | **100.0** | **(720)** | **(9.6)** |

Retail voice revenues, in all business areas, reflect the continuing reduction in the customer base and traffic volumes due to the competitive environment in which the company operates. Combined with a smaller customer base, revenues were adversely affected by a reduction of regulated fixed-mobile termination rates and the discontinuance of certain mandatory or voluntary Premium services (offered by the company on a mandatory or voluntary basis). As a result, VAS service revenues decreased by 45 million euros compared to 2008. The economic impact in terms of lower revenues from the decline in accesses (-177 million euros), was only partially offset by the increase in subscriber charges which came into effect on February 1, 2009, for the domestic business. The expansion of national wholesale services (+170 million euros for regulated intermediate services such as Local Loop Unbundling and Wholesale Line Rentals) offset in part some of these declines.

*Internet*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Change | |
| | | % | | % | | % |
| | (millions of euros, except percentages) | | | | | |
| **Total Internet** | **1,707** | **100** | **1,630** | **100** | **77** | **4.7** |
| *of which content/portal* | *144* | *8.4* | *120* | *7.4* | *24* | *20.0* |

Revenues from internet were 1,707 million euros, increasing 77 million euros compared to 2008. The Narrowband component continues to decline and now represents only about 2% of total revenues. The total domestic retail broadband access portfolio in the domestic market reached around 7.0 million accesses, growing 246,000 accesses compared to the end of 2008. Flat-rate packages now account for 83.0% of the total retail broadband customer portfolio (77% at year-end 2008). IPTV services continue to gain ground in the Consumer market (the portfolio has 401,000 customers, +72,000 compared to the end of 2008) and the Virgilio portal Web packages and activities grew. The Alice Casa offering has a portfolio of 621,000 customers (+503,000 compared to December 31, 2008) and accounts for 8.9% of the broadband portfolio compared to 1.7% at December 2008.

*Business Data*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Change | |
| | | % | | % | | % |
| | (millions of euros, except percentages) | | | | | |
| Leased lines | 190 | 11.0 | 198 | 11.5 | (8) | (4.0) |
| Data transmission | 505 | 29.2 | 552 | 32.1 | (47) | (8.5) |
| Data products | 204 | 11.8 | 211 | 12.3 | (7) | (3.3) |
| ICT services | 831 | 48.0 | 759 | 44.1 | 72 | 9.5 |
| · *Of which ICT Services* | *510* | | *448* | | *62* | *13.8* |
| · *Of which ICT Products* | *321* | | *311* | | *10* | *3.2* |
| **Total Data Business** | **1,730** | **100.0** | **1,720** | **100.0** | **10** | **0.6** |

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Revenues of the Business Data area rose by 10 million euros (+0.6%) compared to 2008. Growth in the packages offered for ICT services and products resulted in an increase in revenues of 72 million euros (+9.5%), mainly in the services area which grew by 13.8%. This increase offset declines in other areas of Business Data.

*Wholesale*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Change | |
| | | % | | % | | % |
| | (millions of euros, except percentages) | | | | | |
| National Wholesale | 2,888 | 70.1 | 2,459 | 65.1 | 429 | 17.4 |
| International Wholesale(1) | 1,229 | 29.9 | 1,318 | 34.9 | (89) | (6.8) |
| **Total Wholesale** | **4,117** | **100.0** | **3,777** | **100.0** | **340** | **9.0** |

(1) Includes sales to the third-party market and Domestic Mobile Telecommunications.

The customer portfolio of Telecom Italia s Wholesale division reached about 6.2 million accesses for voice services and 1.7 million for broadband services at the end of 2009.

Revenues from national wholesale services increased by 429 million euros (+17.4%) compared to 2008. The change in wholesale revenues was related to the expansion of the customer base of alternative operators served through the various types of accesses.

· **Revenues from Mobile Telecommunications**

The program to fundamentally change the mobile business commercial policy in the Consumer segment, as described earlier, led to a significant reduction in mobile units sold which fell from 7.9 million units in 2008 to about 4.8 million units in 2009, with noticeable benefits in terms of the contribution margin of the Domestic Business Unit.

Mobile telecommunications revenues totaled 8,597 million euros in 2009, decreasing by 1,090 million euros (-11.3%) compared to 2008. The new strategic direction which led to the strong contraction in mobile handsets sold as described in the preceding paragraph, resulted in a revenue decline (-44%). Mobile revenues also fell due to the effects of the anticipated decrease in regulated interconnection rates and the reduction in the customer base which primarily occurred in the first part of the year. Excellent results from mobile broadband plans made it possible to offset in part the declining trend of valued-added traditional services (SMS).

At December 31, 2009, the number of Telecom Italia mobile lines was approximately 30.8 million, a decline of 4.0 million compared to December 31, 2008. The reduction compared to December 31, 2008 can be attributed to greater selectivity in the sales policy focusing on

higher-value customers. This strategy was confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

In detail the trend of the main types of revenues from Mobile telecommunications was as follows.

***Outgoing voice***

Outgoing voice revenues totaled 4,583 million euros in 2009, down by 386 million euros (-7.8%) compared to 2008, mainly as a result of the reduction in the customer base.

***Incoming voice***

Incoming voice revenues of 1,511 million euros in 2009 recorded a decrease of 173 million euros (-10.3%), compared to 2008, due mainly to the reduction of termination prices on the mobile network and to a lesser extent, the contraction in the customer base.

***Value-added Services (VAS)***

Value-added services (VAS) revenues amounted to 2,022 million euros in 2009, a decrease of 6.9% compared to 2008. Such decrease was primarily attributable to VAS content (ring tones, logos and games) following a drop in the usage of such services caused by the general economic weakness. The ratio of VAS revenues to revenues from services is about 25%, in line with the 2008 average.

***Handset sales***

Handset sales revenues were 482 million euros in 2009, a decline of 378 million euros compared to 2008. The reduction is due to a decrease in the total handsets sold owing principally to a more selective sales policy that rationalized the product portfolio and focused on quality (higher percentage of advanced handsets and devices using mobile internet) and the higher margins on these same handsets and devices.

**Operating profit**

Operating profit was 5,394 million euros in 2009, a decrease of 11 million euros (-0.2%) compared to the corresponding period of 2008. The Operating profit margin was 24.9% in 2009 (23.3% in 2008).

The Operating profit performance was impacted by the change in the following line items:

- *acquisition of goods and services* totaled 8,332 million euros in 2009, a reduction of 1,317 million euros (-13.6%) compared to the same period of 2008. The change was mainly due to a decrease in the amount to be paid to other operators, partly following the reduction in the termination rates of voice calls on the network of other operators from the fixed and mobile network, and lower purchases of products for resale, in addition to keeping commercial expenses in check, particularly those related to customer acquisition. Such decrease was connected with the Group s strategy of focusing on higher-value customers; and

- *employee benefits expenses* of 3,327 million euros in 2009, represented a decrease of 311 million euros compared to 2008. In 2008, 287 million euros was provided in connection with the collective dismissal procedure (mobility) under Law 223/91. Excluding such effect, employee benefits expenses recorded a decrease of 24 million euros in 2009; the contraction in the average headcount (-2,576 units compared to 2008) was mainly offset by the effect of the June 2008 increase in minimum salaries established by the TLC collective national labor contract and in October 23, 2009, the renewal of TLC collective national labor contract.

Apart from the factors above mentioned, the Operating profit performance can be attributed to:

- lower *depreciation and amortization charges* of 116 million euros in 2009 (largely due to the reduction in amortizable assets); and

- net losses on disposals of non-current assets for 69 million euros.

In addition, during 2009, the credit management software for fixed consumer clientele was disposed of since it was no longer considered usable in light of the new organizational structure of the Domestic Business Unit and the continuance of the fixed-mobile convergence process.

**Capital expenditures**

Capital expenditures totaled 3,523 million euros in 2009, down by 135 million euros compared to 2008. The percentage of capital expenditures to revenues was 16.3% in 2009 (15.7% in 2008). The reduction in total expenditure is largely due to the optimization and the rationalization of capital expenditures for the Broadband Access network, Core Platform and Control, Service and Application Platform, as well as the lower commitments associated with handset packages (either rented or in connection with multi-year contracts) and the acquisition of WI-MAX licenses.

The reduction in the Domestic Business Unit, although including 89 million euros for the purchase of part of the frequencies assigned to IPSE, is also attributable to the cost and capital expenditure reduction plans begun during 2008.

**Employees**

Employees were 58,736 as of December 31, 2009, a reduction of 3,080 units compared to December 31, 2008.

v **Brazil**

On December 30, 2009, Tim Participações finalized the acquisition of Intelig from JVCO Participações (a subsidiary of the Docas Group). Intelig is the domestic and international Brazilian telecommunications operator

for long-distance and data transmission services. From an industrial standpoint, the acquisition is important to the Company s Brazilian operations as it will strengthen and complete the product offering and optimize resources due to the synergies generated by the integration of the two networks. Intelig possesses an important fiber optic network (about 15,000 kilometers) found in major Brazilian cities and has its own extensive carrier network (backbone).

On December 31, 2009, the merger by incorporation of Tim Nordeste S.A. in Tim Celular S.A. was concluded with a view towards continuating the process of simplifying the corporate structure aimed at the rationalization of business activities.

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 (Restated) | 2009 | 2008 (Restated) | Changes | |
| | | | (a) | (b) | (a-b) | % |
| | (millions of euros, except percentages and employees) | | (millions of BRL, except percentages and employees) | | | |
| Revenues | 5,022 | 5,208 | 13,907 | 13,951 | (44) | (0.3) |
| Operating profit | 209 | 189 | 580 | 507 | 73 | 14.4 |
| · *% of Revenues* | *4.2* | *3.6* | *4.2* | *3.6* | | |
| Capital expenditures | 964 | 1,348 | 2,671 | 3,612 | (941) | (26.1) |
| Employees at year-end (units) | 9,783 | 10,285 | 9,783 | 10,285 | (502) | (4.9) |

**Revenues**

Revenues totaled 13,907 million Brazilian reais in 2009, -44 million Brazilian reais lower than in 2008 (-0.3%). Product revenues decreased from 1,087 million Brazilian reais in 2008 to 1,059 million Brazilian reais in 2009 (-2.6%). Service revenues declined from 12,864 million Brazilian reais in 2008 to 12,848 million Brazilian reais in 2009 (-0.1%). In this context, VAS revenues increased by 16.1% over the previous year, owing to the growth in data packages with broadband and services and content. The ARPU, average revenues per units was 28.2 Brazilian reais in December 2009, compared to 31.6 Brazilian reais in December 2008.

Total lines at December 31, 2009 are 41.1 million, up 12.9% compared to December 31, 2008 corresponding to a 23.6% market share on lines.

**Operating profit**

Operating profit amounted to 580 million Brazilian reais in 2009, an increase of 73 million Brazilian reais compared to 2008. This result was achieved by exercising a tight control over costs combined with an efficiency plan to generate resources to support the commercial relaunching of Tim Brasil. The cost components which grew in 2009 compared to 2008 were attributable to investments for the development of the business.

With respect to changes in costs, the following is noted:

- *acquisition of goods and services* totaling 7,777 million Brazilian reais in 2009 (8,107 million Brazilian reais in 2008). The decrease compared to the previous year (-330 million Brazilian reais), is principally due to a reduction of 514 million Brazilian reais in acquisition of raw and ancillary materials, consumable stores and goods and a reduction of 489 million Brazilian reais in the portion in revenues paid to other TLC operators (2,623 million Brazilian reais in 2009 and 3,112 million Brazilian reais in 2008) partially offset by an increase of 536 million Brazilian reais for commissions, sales commission, other sales costs and advertising and promotion costs (a total amount of 2,145 million Brazilian reais in 2009 compared to 1,609 million Brazilian reais in 2008);

- *employee benefits expenses*, amounting to 574 million Brazilian reais in 2009, decreased by 52 million Brazilian reais compared to 2008 (-8.3 %) due to a variation in the composition and in the unit cost of the workforce. Average headcount went from 9,240 in 2008 to 8,900 units in 2009. The percentage of employee benefits expenses to revenues was 4.1% in 2009, -0.4 percent compared to the previous year 2008; and

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· *other operating expenses*, amounting to 2,043 million Brazilian reais in 2009, decreased by 14.2% (2,381 million Brazilian reais in 2008) mainly as a result of the better performance in the collection of receivables related to postpaid customers. Such expenses consist of the following:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of Brazilian reais) | | | |
| Impairments and expenses in connection with credit management | 422 | 749 | (327) | (43.7) |
| Accruals to provisions | 70 | 96 | (26) | (27.1) |
| TLC operating fees | 735 | 700 | 35 | 5.0 |
| Taxes on revenues | 750 | 755 | (5) | (0.7) |
| Indirect duties and taxes | 33 | 41 | (8) | (19.5) |
| Sundry expenses | 33 | 40 | (7) | (17.5) |
| **Total** | **2,043** | **2,381** | **(338)** | **(14.2)** |

During 2009, negotiations were concluded with Embratel regarding the dispute that began in 2005 over long-distance traffic and interconnection. The settlement had a negative impact on operating profit of 64 million Brazilian reais along with the recognition of amounts payable by Embratel that had been disputed and that had already been recorded in Tim Participações financial statements in the amount of 90 million Brazilian reais. In April 2009, following a burglary, an impairment loss was recorded on the San Paolo warehouse of 21 million Brazilian reais.

Furthermore, other costs incurred for the management and conclusion of the consolidation process of Intelig amounted to 10 million Brazilian reais.

Moreover, amortization and depreciation charges increased by 129 million Brazilian reais mainly in connection with the 3G license purchased in the second quarter of 2008, capital expenditures in respect of the new UMTS network and preserving the capacity and quality of the 2G network.

**Capital expenditures**

Capital expenditures were to 2,671 million Brazilian reais in 2009, a decrease of 941 million Brazilian reais compared to 2008, primarily due to the expense incurred in 2008 to acquire the 3G license for 1,239 million Brazilian reais.

**Employees**

Employees were 9,783 at December 31, 2009, a reduction of 502 people compared to December 31, 2008 (10,285 units). Employees at December 31, 2009 comprised 580 units referred to the new entrance of Intelig Telecomunicações Ltda in the scope of consolidation.

v **Media**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes | |
| | (a) | (b) | (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 230 | 287 | (57) | (19.9) |
| Operating profit (loss) | (80) | (113) | 33 | 29.2 |
| · *% of Revenues* | *(34.8)* | *(39.4)* | | |
| Capital expenditures | 53 | 50 | 3 | 6.0 |
| Employees at year-end (units) | 757 | 967 | (210) | (21.7) |

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The principal operating data of the Pay-per-View business sold, through November 2008, and the principal operating data of the company, Telecom Media News, through April 30, 2009, and for the year ended 2008, are as follows:

| | Year ended December 31 | | | |
|---|---|---|---|---|
| | 1.1 4.30.2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Revenues | 3 | 81 | (78) | (96.3) |
| Operating profit (loss) | (2) | (25) | 23 | 92.0 |

The tables below for the years ended December 31, 2009 and 2008 has been recast to exclude the results relating to the Pay-per-View business and Telecom Media News:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 (a) | 2008 (Restated) (b) | Changes (a-b) | % |
| | (millions of Euro, except percentages and employees) | | | |
| Revenues | 227 | 215 | 12 | 5.6 |
| Operating profit (loss) | (68) | (97) | 29 | 29.9 |
| · *% of Revenues* | *(29.9)* | *(45.1)* | | |
| Capital expenditures | 53 | 48 | 5 | 10.4 |
| Employees at year-end (units) | 757 | 856 | (99) | (11.6) |

**Revenues**

Revenues amounted to 227 million euros in 2009, an increase of 12 million euros (5.6%) compared to 215 million euros in 2008. Such increase was due to:

- **revenues of Telecom Italia Media S.p.A.** in 2009, before intragroup eliminations, amounted to 114 million euros, an increase of 16 million euros (+16.7%) compared to 2008. Net advertising revenues showed an improvement of 11 million euros compared to 2008 (13.2%), sales of Digital Content for Telecom Italia grew (+6 million euros), and the other activities decreased by 1 million euros;

- **revenues of the MTV group**, amounting to 97 million euros in 2009, before intragroup eliminations, were down 14.3% (-17 million euros) compared to 2008 (114 million euros). This result was attributable to lower advertising revenues (-16 million euros); and

- **revenues relating to Network Operator activities**, before intragroup eliminations, amounted to 50 million euros in 2009, compared to 44 million euros in 2008 (11.9%). This result was principally due to higher revenues from the rental of bandwidths to third parties, offset in part by lower invoicing of digital bandwidth for the Pay-per-View activities that were sold to Dahlia TV at year-end 2008. The contract

with Dahlia TV, which went through an initial experimental period in the first four months of 2009 in connection with the start-up phase, began to produce its full effects from the second quarter of 2009.

**Operating profit (loss)**

Operating profit (loss) was a loss of 68 million euros in 2009 (-97 million euros in 2008), an improvement of 29 million euros.

In particular, operating loss of Telecom Italia Media S.p.A. decreased by 26 million euros compared to 2008 (-91 million euros). This improvement, besides the above higher revenues, can also be ascribed to lower La7 programming costs of 14 million euros, mainly concentrated in the entertainment sector (8 million euros), and recoveries of productivity.

Operating profit of the MTV Group decreased by 4 million euros compared to 2008. To deal with the fall in advertising, as early as the end of the first quarter, MTV initiated a program to reorganize the company. This program led to cost savings of 14 million euros which were predominantly concentrated in production activities and made it possible to minimize the impact of the reduction of revenues on operating profit.

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Operating profit relating to Network Operator activities improved by 5 million euros compared to 2008 and was attributable to the above-noted increase in revenues, net of higher operating costs.

**Capital expenditures**

Capital expenditures amounted to 53 million euros in 2009 (48 million euros in 2008). Such expenditures refer to Telecom Italia Media S.p.A., the MTV group and Telecom Italia Media Broadcasting for 27 million euros, 4 million euros and 22 million euros respectively, mostly for the acquisition of television rights extending beyond one year (25 million euros) and relate to the acquisition of infrastructures for the expansion and maintenance of the digital network (21 million euros).

**Employees**

Employees were 757 at December 31, 2009, a reduction of 99 compared to December 31, 2008 and includes 38 people with temporary work contracts (75 units at December 31, 2008). The reduction in employees was consequent to actions designed to recover overall efficiency based on measures for the reorganization and optimization of technical and production structures.

v **Olivetti**

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes | |
| | (a) | (b) | (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 350 | 352 | (2) | (0.6) |
| Operating profit (loss) | (19) | (37) | 18 | 48.6 |
| · *% of Revenues* | *(5.4)* | *(10.5)* | | |
| Capital expenditures | 4 | 3 | 1 | |
| Employees at year-end (units) | 1,098 | 1,194 | (96) | (8.0) |

**Revenues**

Revenues were 350 million euros in 2009, down 2 million euros compared to 2008.

Revenues were stable compared to 2008 despite the difficult economic conditions. With respect to quarterly results, the fourth quarter of 2009 recorded revenues of 131 million euros (100 million euros in the fourth quarter of 2008, or +31%). This was a significant turnaround compared to the contractions recorded in the three previous quarters (-8.3% in the third quarter of 2009 over the third quarter of 2008, -15.5% in the second quarter of 2009 over the second quarter of 2008 and -14.5% in the first quarter of 2009 over the first quarter of 2008).

Product revenues in 2009 were in line with the prior year, but with a different mix: lower volumes for conventional products compensated by sales of new product lines (Data Cards, Net Books and Note Books) on Olivetti and Telecom Italia channels. The lower sales volumes of conventional products are linked to the weak economy with the highest declines in European markets, particularly in Spain and in Great Britain where the Pound sterling decreased significantly in value.

Ink-jet products, recorded a 32% reduction in revenues due to lower sales of fax machines, multifunction printers and accessories.

Printers for banking counter applications, the segment in which Olivetti is the market leader, posted a decrease in volumes of 13% due to the contraction of Middle East markets, the Emirates and Turkey where the crisis froze the investments of banks for the opening of new branches. The supply of counter printers to the Italian post office company, Poste Italiane S.p.A., continued in 2009 with volumes equivalent to those of the prior year.

The sales of fiscal cash registers in the Italian market declined considerably in volumes compared to 2008. 2008 had benefitted from the order to replace installed machines owing to the so-called seven-year period , that is, the average period over which the fiscal memory inserted in the products becomes depleted.

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On foreign markets, the sales of fiscal cash registers benefitted from the law that came into effect for tax collection in Sweden, where revenues totaled about 6 million euros.

In 2009 as compared to 2008, professional office products, copiers and related accessories posted a sharp reduction in terms of sales volumes in the black and white copier segment (-23%) and in the color copier segment (-10%), with an average price reduction of 9% on black and white machines and 5% on color machines.

In 2009, installations began on an important project in cooperation with Telecom Italia S.p.A., for the supply of specialized terminals for payments/services for authorized tobacconists in Italy. To date more than 4,500 have been installed.

Since the end of June 2009, Olivetti s product catalog has been enhanced with the start of the Supply Chain activity. This activity centers on the supply of Data Cards, Net Books and Note Books to Telecom Italia S.p.A. in Italy and for distribution in international markets. In 2009, revenues from Telecom Italia were 24 million euros.

**Operating profit (loss)**

Operating profit (loss) was a negative 19 million euros in 2009, an improvement of 18 million euros over the same period of the prior year.

The lower margin related to the fall in revenues was absorbed by a significant reduction of fixed overheads, the result of the effects of the reorganization. Considering also the impact of exchange rate fluctuations on sales in foreign currency to customers outside the EU and on purchases of merchandise and products in foreign currencies, the change in the U.S. dollar rate against the euro adversely affected Operating profit for a net amount of 3 million euros.

**Capital expenditures**

Capital expenditures amounted to 4 million euros in 2009, an increase of 1 million euros compared to the same period of 2008.

**Employees**

Employees were 1,098 (1,005 in Italy and 93 abroad) at December 31, 2009, a decrease of 96 units compared to December 31, 2008 (1,194 of whom 1,088 in Italy and 106 abroad).

v **International Investments**

**BBNed group**

The BBNed group consists of the parent, BBNed N.V., and its two subsidiaries, BBeyond B.V. and InterNLnet B.V.

The following table sets forth, for the periods indicated, certain financial and other data for the BBNed Group.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes | |
| | (a) | (b) | (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 87 | 84 | 3 | 3.6 |
| Operating profit (loss) | (5) | (17) | 12 | 70.6 |
| · *% of Revenues* | *(5.7)* | *(20.2)* | | |
| Capital expenditures | 6 | 25 | (19) | (76.0) |
| Employees at year end (units) | 347 | 407 | (60) | (14.7) |

The key results for the year 2009 can be summarized as follows:

· **revenues** amounted to 87 million euros, 3 million euros higher than 2008 (+3.6%), due primarily to a greater contribution of revenues from retail ADSL services. The customer portfolio, standing at about 161,000 units at December 31, 2009, is approximately 5,000 lower compared to December 31, 2008;

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- **operating profit** was a negative 5 million euros in 2009, compared to a negative 17 million euros in 2008;

- **capital expenditures** totaled 6 million euros, decreasing 19 million euros compared to the prior year. The reduction can be attributed to capital expenditures in infrastructure (in 2008, significant network and information systems investments were made to expand the Alice package and fiber networks) and operating efficiency recoveries due to a rigid control over the return on investments;

- **employees** were 347 at December 31, 2009, a reduction of 60 units compared to December 31, 2008 and included 13 people with temporary work contracts (61 units at December 31, 2008).

**5.3.8 YEAR ENDED DECEMBER 31, 2008 COMPARED WITH YEAR ENDED DECEMBER 31, 2007**

The following chart summarizes the main items which impacted profit attributable to owners the Parent in 2008:

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v **Revenues**

**Revenues** amounted to 29,000 million euros in 2008, a decrease of 802 million euros, or 2.7%, compared to 29,802 million euros in 2007.

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) | | 2007 (Restated) | | | |
| | Gross Revenues(1) (a) | % of Consolidated revenues | Gross Revenues(1) (b) | % of Consolidated revenues | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| Domestic | 23,227 | 80.1 | 24,034 | 80.6 | (807) | (3.4) |
| Brazil | 5,208 | 18.0 | 4,990 | 16.7 | 218 | 4.4 |
| Media, Olivetti and Other Operations (2) | 857 | 3.0 | 999 | 3.4 | (142) | (14.2) |
| *Adjustments and eliminations* | *(292)* | *(1.1)* | *(221)* | *(0.7)* | *(71)* | (32.1) |
| **Total revenues** | **29,000** | **100.0** | **29,802** | **100.0** | **(802)** | **(2.7)** |

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

In 2008, in particular, revenues for the **Domestic Business Unit** were impacted by:

· the positive change in Revenues from innovative businesses such as Fixed-line BroadBand Revenues (an increase of 186 million euros in 2008 compared to 2007), Interactive VAS Revenues from the Mobile business (an increase of 263 million euros in 2008 compared to 2007) and Revenues from ICT services (an increase of 115 million euros in 2008 compared to 2007);

· the positive change in National Wholesale Revenues, despite a significant reduction in regulated prices, owing to the portion of access services by alternative operators to the Telecom Italia network (Unbundling of the Local Loop, Wholesale Line Rental, Bitstream, etc.) which grew compared to the prior year by 113 million euros. This change also made it possible to partly offset the negative trend of revenues from retail voice services;

· the gradual reduction in certain negative effects caused by regulatory and contractual changes, such as the application of the Bersani Decree . These were related to top-up costs for mobile phones, the reduction in termination rates, the reduction in international roaming traffic rates within the EU and the above-mentioned change in prices relating to regulated bitstream wholesale services, unbundling and

shared access, which during the year reduced revenues by approximately 830 million euros. This change, observed during the course of the year on a quarterly basis, reflected an impact of 418 million euros in the first quarter which decreased to 81 million euros in the fourth quarter.

The growth in revenues in the **Brazil Business Unit** from 4,990 million euros in 2007 to 5,208 million euros in 2008 was attributable to value-added services, growing by more than 30% (an increase of 105 million euros) compared to the prior year. This was evident in the increase of the TIM Web client base (BroadBand connectivity plans using mobile technology) which reached 425,000 at the end of the period, up 174% compared to year-end 2007.

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v **Other Income**

**Other income** were detailed as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Late payment fees charged for telephone services | 86 | 90 | (4) | (4.4) |
| Recovery of costs for employees, purchases and services rendered | 51 | 50 | 1 | 2.0 |
| Capital and operating grants | 42 | 33 | 9 | 27.3 |
| Damage compensation, penalties and sundry recoveries | 64 | 40 | 24 | 60.0 |
| Sundry income | 93 | 170 | (77) | (45.3) |
| **Total other income** | **336** | **383** | **(47)** | **(12.3)** |

v **Operating Expenses**

Our operating expenses amounted to 23,899 million euros in 2008, a reduction of -2.2% compared to 24,447 million euros in 2007 (-548 million euros); such decrease is detailed as follows:

- **Acquisition of goods and services** amounted to 13,120 million euros, a decrease of 322 million euros, or 2.4%, compared to 2007 (13,442 million euros). The reduction in costs for the portion of revenues to be paid to other operators and for commercial expenses of the Domestic Business Unit were partly offset by an increase in the interconnection costs of the Brazil Business Unit.

In detail:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Acquisition of raw materials and merchandise | 2,707 | 2,620 | 87 | 3.3 |
| Portion of revenues due to other TLC operators and interconnection costs | 4,927 | 5,279 | (352) | (6.7) |
| Commercial and advertising costs | 1,971 | 2,117 | (146) | (6.9) |
| Power, maintenance and outsourced services | 1,280 | 1,167 | 113 | 9.7 |
| Rent and leases | 572 | 562 | 10 | 1.8 |
| Other service expenses | 1,663 | 1,697 | (34) | (2.0) |
| **Total acquisition of goods and services** | **13,120** | **13,442** | **(322)** | **(2.4)** |

| | | |
|---|---|---|
| *% on Revenues* | *45.2* | *45.1* |

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· **Employee benefits expenses**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| **Employee benefits expenses at payroll:** | | | | |
| Wages and salaries | 2,597 | 2,579 | 18 | 0.7 |
| Social security expenses | 944 | 919 | 25 | 2.7 |
| Employee severance indemnities | 69 | 68 | 1 | 1.5 |
| Other employee expenses | 92 | 75 | 17 | 22.7 |
| **(A)** | **3,702** | **3,641** | **61** | **1.7** |
| **Temporary work costs (B)** | **38** | **40** | **(2)** | **(5.0)** |
| **Miscellaneous expenses for personnel and for other labor related services rendered:** | | | | |
| Remuneration of personnel other than employees | 9 | 15 | (6) | (40.0) |
| Charges for termination benefit plans | 366 | 157 | 209 | 133.1 |
| Other | (1) | (138) | 137 | 99.3 |
| **(C)** | **374** | **34** | **340** | |
| **Total employee benefit expenses (A+B+C)** | **4,114** | **3,715** | **399** | **10.7** |
| *% on Revenues* | *14.2* | *12.5* | | |

Employee benefit expenses were 4,114 million euros in 2008, an increase of 399 million euros, or 10.7%, compared to 2007 (3,715 million euros).

In 2008, wages and salaries, social security expenses and employee severance indemnities of the Parent and other Italian companies of the Group were higher following the continuing increase in costs due to the effect of the October 2007 and June 2008 increases in the minimum salary contract terms established by the July 31, 2007 TLC collective national labor contract, for the two economic years 2007 and 2008; such increase was partially countered by the contraction in the average number of the salaried workforce (-2,843 units compared to 2007).

In 2008, charges for termination benefit plans (366 million euros) included 287 million euros relating to the Domestic Business Unit for the mobility agreements for collective dismissals under Law No. 223/91 signed with the labor unions by Telecom Italia (September 19, 2008) and Telecom Italia Sparkle (October 28, 2008), as well as 5 million euros for temporary layoff agreements, under Law No. 223/91, signed by Olivetti and Olivetti I-Jet (December 11, 2008).

Miscellaneous expenses for personnel and for other labor-related services rendered other in 2007 (-138 million euros) included the positive impact of the profit bonus accrued in 2006 that was no longer due following agreements with the labor unions in June 2007 (-79 million euros) and the actuarial recalculation of the provision for employee severance indemnities as a result of applying the new law on supplementary benefits (-59 million euros).

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The Group s average number of salaried workforce for the periods indicated was as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (equivalent number, except percentages) | | | |
| Average salaried workforce Italy(1) | 63,145 | 64,431 | (1,286) | (2) |
| Average salaried workforce Foreign(2) | 10,363 | 11,304 | (941) | (8.3) |
| **Total average salaried workforce** | **73,508** | **75,735** | **(2,227)** | **(2.9)** |
| Non-current assets held for sale Foreign(3) | 3,277 | 3,893 | (616) | (15.8) |
| **Total average salaried workforce including Non-current assets held for sale** | **76,785** | **79,628** | **(2,843)** | **(3.6)** |

(1) The change from 2007 includes the addition of Shared Service Center s average headcount of 460 employees.

(2) The change from 2007 includes the deduction of Entel Bolivia group s average headcount of 1,381 employees.

(3) In 2008 included the average salaried headcount of HanseNet (2,520 units) and the Liberty Surf Group, sold at the end of August 2008 (757 units). In 2007 included the average salaried headcount of HanseNet (2,543 units) and the Liberty Surf Group (1,350 units).

Group s employees at December 31, 2008 and 2007 were as follows:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (units, except percentages) | | | |
| Employees Italy | 64,242 | 66,951 | (2,709) | (4.1) |
| Employees Foreign | 11,078 | 12,287 | (1,209) | (9.8) |
| **Total Employees** | **75,320** | **79,238** | **(3,918)** | **(4.9)** |
| Non-current assets held for sale Foreign | 2,505 | 4,191 | (1,686) | (40.2) |
| **Total Employees including Non-current assets held for sale** | **77,825** | **83,429** | **(5,604)** | **(6.7)** |

The Group employee levels fell by 3,918 from year-end 2007 mainly due to a 2,674 employee decrease at Telecom Italia S.p.A., corresponding to more than 50% of the target in the efficiency plan presented by the Executive Committee on June 4, 2008.

· **Other operating expenses**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Impairments and expenses in connection with credit management | 687 | 927 | (240) | (25.9) |
| Accruals to provisions | 74 | 384 | (310) | (80.7) |
| Indirect duties and taxes | 315 | 283 | 32 | 11.3 |
| TLC operating fees | 282 | 266 | 16 | 6.0 |
| Taxes on revenues of Brazilian companies | 139 | 156 | (17) | (10.9) |
| Penalties, compensation and administrative sanctions | 63 | 60 | 3 | 5 |
| Association dues and fees, donations, scholarships and traineeships | 26 | 25 | 1 | 4 |
| Sundry expenses | 45 | 167 | (122) | (73.1) |
| **Total other operating expenses** | **1,631** | **2,268** | **(637)** | **(28.1)** |
| *% on Revenues* | *5.6* | *7.6* | | |

In 2008, impairments and expenses in connection with credit management included 402 million euros attributable to the Domestic Business Unit (652 million euros in 2007) and 280 million euros to the Brazil Business Unit (268 million euros in 2007). Charges for accruals made in 2008 in connection with receivables management took into account both the assessment of credit risks on consumer and business customers arising from the recent change in the macroeconomic scenario and the steps taken to recover receivables. Impairments and expenses in connection with credit management were higher in 2007 despite the worsening economic climate in 2008 due to certain one-off charges and regulatory developments.

In 2008, accruals to provisions, recognized mainly for pending disputes, included 31 million euros referring to the Domestic Business Unit (287 million euros in 2007, recorded in respect of negative developments in disputes of a regulatory nature with other fixed-line and mobile telephone operators) and 36 million euros to the Brazil Business Unit (18 million euros in 2007).

Sundry expenses referred to prior period income and expenses.

- **Depreciation and amortization,** amounted to 5,676 million euros (5,518 million euros in 2007), an increase of 158 million euros, of which 96 million euros related to the amortization of intangible assets and 62 million euros to the depreciation of tangible assets.

The increase in amortization reflects the development of European BroadBand and the amortization charge related to capitalized Subscriber Acquisition Costs ( **SAC** ) for sales plans. The increase in depreciation is mainly due, in the Domestic Business Unit, to the shift in the capital expenditure mix to assets with a shorter life and also the full effect in 2008 of the depreciation charge on tangible assets capitalized in 2007.

- **Gains on disposals of non-current assets,** amounted to 35 million euros (5 million euros in 2007) and included 9 million euros on the disposal of the Pay-per-View business segment by Telecom Italia Media in addition to other net gains mainly on the sale of properties.

- **Impairment losses on non-current assets,** amounted to 12 million euros in 2008 (44 million euros in 2007). The writedown was effected after tax benefits were recorded in 2008 that had not been accounted for at the date of acquisition, since the assumptions for their recognition were believed not to exist at that time.

The impairment test for the cash-generating units of the Telecom Italia Group indicated that the recoverable amounts exceeded the carrying amounts, therefore no impairment losses were recognized on goodwill.

v **Operating Profit**

**Operating profit** was 5,437 million euros in 2008, a reduction of 301 million euros, or 5.2%, compared to 2007 (5,738 million euros). As a percentage of revenues, operating profit was 18.7% in 2008 (19.3% in 2007).

v **Share of Profits (Losses) of Associates and Joint Ventures Accounted for Using the Equity Method**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| ETECSA. | 53 | 49 | 4 | 8.2 |
| Sofora Telecomunicaciones S.A. | 24 | 25 | (1) | (4.0) |
| Tiglio I and Tiglio II | (7) | 11 | (18) | |
| Other investments | (6) | 1 | (7) | |
| **Total** | **64** | **86** | **(22)** | **(25.6)** |

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.5 International Investments , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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v **Other Income (Expenses) from Investments**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | Changes % |
| | (millions of euros, except percentages) | | | |
| Dividends from other investments | 3 | 7 | (4) | (57.1) |
| Net gains on disposal of other investments | 2 | 462 | (460) | (99.6) |
| Writedowns of other investments and other income expenses | (1) | 10 | (11) | (110.0) |
| **Total** | **4** | **479** | **(475)** | **(99.2)** |

In 2007, the net gains on disposals of Other investments included, in particular, the gain on the disposal of the entire stakes held in Oger Telecom (86 million euros), Capitalia (38 million euros), Mediobanca (109 million euros), Solpart Participações (201 million euros) and Brasil Telecom Participações (27 million euros).

v **Finance Income (Expenses)**

Details are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | Changes % |
| | (millions of euros, except percentages) | | | |
| Fair value measurement of call options for 50% of Sofora Telecomunicaciones share capital. | (190) | 70 | (260) | (371.4) |
| Income on bond buybacks | 62 | | 62 | |
| Early termination of cash flow derivatives | 19 | 55 | (36) | (65.5) |
| Writedown of receivables from Lehman Brothers | (58) | | (58) | |
| Accrual to provisions for interest (Telecom Italia Sparkle case) | (10) | (8) | (2) | (25.0) |
| Net finance expenses, fair value adjustments of derivatives and underlyings and other items | (2,434) | (2,300) | (134) | (5.8) |
| **Total** | **(2,611)** | **(2,183)** | **(428)** | **(19.6)** |

The writedown of receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., related to derivative transactions hedging financial risks on existing financial payables with Lehman Brothers International Europe Ltd and Lehman Brothers Special

Financing Inc. that were guaranteed by Lehman Brothers Holding Inc., when Lehman Brothers Holding Inc. announced that it had begun bankruptcy proceedings.

After the announcement, the Telecom Italia Group initiated legal action aimed at the early termination of those transactions and to recover the receivable. As a consequence of that action, since the Telecom Italia Group had a receivable with Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., it wrote down that receivable to estimated realizable value by a total amount of 58 million euros.

In addition, in 2008, net finance expenses included an accrual of 10 million euros (8 million euros in 2007) to the provision for risks and charges due to the Telecom Italia Sparkle case.

The increase of 134 million euros in net finance expenses, fair value adjustments of derivatives and underlyings and other items includes 70 million euros due to the effect of higher interest rates and the change in debt exposure, 36 million euros for fair value adjustments of derivatives qualifying and not qualifying for hedge accounting, expenses generated by discounting to present value the debt on the purchase of the 3G mobile telephone licenses by the Brazil Business Unit (32 million euros) and other minor items.

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2009

v **Income Tax Expense**

Income tax expense amounted to 677 million euros and decreased by 984 million euros compared to 2007 (1,661 million euros). The reduction was mainly due to the following:

- lower tax rates applied in calculating the current income tax in Italy: the IRES tax rate was reduced from 33% to 27.5% and the IRAP tax rate from 4.25% to 3.90% compared to 2007, with a total benefit to the Parent, Telecom Italia, of 137 million euros;
- deferred tax assets recorded by some Group companies which became recoverable starting in 2008 (approximately 90 million euros). The year 2007 had benefited from the net recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of subsidiaries residing in the European Union, for 96 million euros;
- a net benefit of 515 million euros resulting from the difference between 1,048 million euros, arising mainly from the release to the separate income statement of deferred tax liabilities, and 533 million euros of substitute tax. For further details please see Note-Income tax expense , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;
- lower taxable income.

v **Profit (Loss) from Discontinued Operations/Non-Current Assets Held for Sale**

The loss from Discontinued operations/Non-current assets held for sale was 39 million euros (a loss of 99 million euros in 2007) and mainly included the following:

- the net impact of Liberty Surf Group S.A.S., being the balance between the gain on the disposal and the company s negative contribution to the consolidated result (-28 million euros);
- HanseNet s negative contribution on consolidation, including an impairment loss of 21 million euros and the net contribution of the company to the consolidated result (for a total of -10 million euros);
- additional expenses connected with sales transactions in previous years (-1 million euros).

In 2007, the loss from Discontinued operations/Non-current assets held for sale mainly included the following:

- the loss of 222 million euros related to the Liberty Surf group;
-

the release of a provision net of additional accruals to the provision and expenses connected with sales transactions which took place in prior years for 36 million euros;

- HanseNet s positive contribution on consolidation for 87 million euros.

### 5.3.9 Results of Operations of Business Units for the Year Ended December 31, 2008 Compared with the Year Ended December 31, 2007.

v **Domestic**

With respect to the new customer centric organization which the Telecom Italian Group has adopted for the domestic market, the manner of representing the Business Unit has changed from the one presented in the 2008 Annual Report in which such information had been organized by fixed and mobile technology businesses. For further details regarding the new customer centric organization please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.1 Domestic .

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**Item 5. Operating And Financial Review And Prospects** **Results Of Operations For The Three Years Ended December 31, 2009**

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 23,227 | 24,034 | (807) | (3.4) |
| Operating profit | 5,405 | 5,660 | (255) | (4.5) |
| · *% of Revenues* | *23.3* | *23.5* | | |
| Capital expenditures | 3,658 | 4,064 | (406) | (10.0) |
| Employees at year-end (units) | 61,816 | 64,362 | (2,546) | (4.0) |

**Revenues** decreased by 807 million euros, or 3.4%, from 24,034 million euros in 2007 to 23,227 million euros in 2008.

In detail, an analysis of the Domestic Business Unit s revenues is as follows:

· **Core Domestic**

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated)(1) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues(2) | 22,104 | 22,984 | (880) | (3.8) |
| Operating profit | 5,163 | 5,491 | (328) | (6.0) |
| · *% of Revenues* | *23.4* | *23.9* | | |
| Capital expenditures | 3,501 | 3,962 | (461) | (11.6) |
| Employees at year-end (units) | 60,539 | 63,118 | (2,579) | (4.1) |

(1) For 2007 an analysis of Core Domestic revenues by market segment is not available as this kind of encoding was not foreseen at that time in our information systems.

(2) The values indicated are net of intersegment relationship.

In the Core Domestic Market, revenues decreased by 880 million euros compared to 2007 (-3.8%) mainly due to declines in Retail fixed and mobile voice revenues as well as due to the competitive environment in which the company was operating. In the fixed-line business the revenue reduction was mainly due to the contraction in the customer base (-1.9 million lines compared to December 31, 2007, equal to -10%) and traffic volumes, also attributable to the migration from fixed-mobile to mobile-mobile solutions. This trend was partially offset by the growth of national wholesale services, Broadband and ICT. In the Mobile business lower revenues were mainly due to the smaller customer base and to the reduction in mobile termination rates.

· **International Wholesale**

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Change (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 1,830 | 1,849 | (19) | (1.0) |
| Operating profit | 236 | 170 | 66 | 38.8 |
| · *% of Revenues* | *12.9* | *9.2* | | |
| Capital expenditures | 163 | 108 | 55 | 50.9 |
| Employees at year-end (units) | 1,277 | 1,244 | 33 | 2.7 |

In international Wholesale, where the Telecom Italia Group operates through Telecom Italia Sparkle and its subsidiaries, revenues fell by 19 million euros (-1.0%) compared to 2007.

* * *

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In addition to the summary reported above, sales information by technology (fixed and mobile) is also presented below.

Revenues of the Domestic Business Unit by technology are reported below:

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2008 (Restated) | | | 2007 (Restated) | | | Change % | |
| DOMESTIC | Total | Fixed (1) | Mobile (1) | Total | Fixed (1) | Mobile (1) | Total | Fixed (1) | Mobile (1) |
| | (millions of euros, except percentages) | | | | | | | | |
| **Total Core Domestic** | **22,104** | **13,585** | **9,687** | **22,984** | **14,227** | **9,905** | **(3.8)** | **(4.5)** | **(2.2)** |
| International Wholesale | 1,830 | 1,830 | | 1,849 | 1,849 | | (1.0) | (1.0) | |
| *Eliminations* | *(707)* | *(415)* | | *(799)* | *(518)* | | | | |
| **Total Domestic** | **23,227** | **15,000** | **9,687** | **24,034** | **15,558** | **9,905** | **(3.4)** | **(3.6)** | **(2.2)** |

(1) The breakdown by fixed and mobile technology is presented gross of intersegment eliminations.

An analysis of the main components of the Business Unit s revenues is as follows:

· **Revenues from fixed telecommunications**

Revenues from fixed telecommunications amounted to 15,000 million euros in 2008 and decreased by 558 million euros compared to 2007 (-3.6%). The following chart shows the trend of revenues in the major business areas.

*Retail voice*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) | | 2007 (Restated) | | Changes | |
| | (a) | % | (b) | % | (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| Traffic | 3,118 | 41.4 | 3,524 | 42.2 | (406) | (11.5) |
| Access | 3,668 | 48.8 | 3,938 | 47.1 | (270) | (6.9) |
| VAS | 252 | 3.3 | 351 | 4.3 | (99) | (28.2) |
| Telephony Products | 486 | 6.5 | 539 | 6.4 | (53) | (9.8) |
| **Total Retail voice** | **7,524** | **100.0** | **8,352** | **100.0** | **(828)** | **(9.9)** |

Retail voice revenues showed an ongoing contraction in the customer base and traffic volumes due to the competitive environment in which the company was operating. In 2008, the number of Telecom Italia physical access lines fell by approximately 1.9 million compared to year-end 2007 (-10%). This was partly prompted by the availability, starting from 2008, of new access solutions to the Telecom Italia network (Wholesale Line Rental) typically targeting customers who had previously migrated their telephone traffic to alternative operators using non-infrastructure solutions such as carrier selection and pre-selection. The impact in terms of lower access revenues (-270 million euros), for the domestic business, was partly compensated by the growth of national wholesale services.

The national market, following the international trend, continued its migration from fixed-mobile to mobile-mobile solutions. This, in fact, accounted for more than 50% of the total contraction in traffic revenues (-406 million euros).

In addition to the market changes above, retail voice revenues were also affected during the year by the following:

- the effect of the reduction in regulated fixed-mobile termination rates (approximately 100 million euros entirely offset by lower interconnection costs with mobile operators);

- the discontinuance of some obligatory and voluntary Premium services which had a sharp impact on revenues.

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*Internet*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) (a) | % | 2007 (Restated) (b) | % | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| Total Internet | **1,630** | **100** | **1,468** | **100** | **162** | **11.0** |
| *of which content/portal* | *120* | *7.4* | *78* | *5.3* | *42* | *53.8* |

The total domestic retail BroadBand access portfolio grew by 327,000 from year-end 2007 to 6.8 million at year-end 2008. Within the scope of this expansion of the customer base and consistent with the value strategy followed by the Company for the entire year, Flat-rate packages now accounted for 77% of the total retail BroadBand customer portfolio, up 677,000 from year-end 2007. The VoIP customer portfolio reached approximately 2 million accesses and stands at 30% of total retail BroadBand accesses. IPTV expansion continued on the Consumer market (the portfolio was 329,000 customers at December 31, 2008, +249,000 compared to year-end 2007), while offers and web activities are being developed through the Virgilio/Alice portal.

The above sales actions led to a growth in BroadBand revenues of 13.4% (an increase of 186 million euros).

*Data Business*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) (a) | % | 2007 (Restated) (b) | % | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| Leased lines | 198 | 11.5 | 239 | 14.3 | (41) | (17.2) |
| Data Transmission | 552 | 32.1 | 581 | 34.7 | (29) | (5.0) |
| Data Product | 211 | 12.3 | 208 | 12.4 | 3 | 1.4 |
| ICT | 759 | 44.1 | 645 | 38.6 | 114 | 17.7 |
| *of which ICT Service* | *448* | | *372* | | *76* | *20.4* |
| *of which ICT Products* | *311* | | *272* | | *39* | *14.3* |
| **Total Data Business** | **1,720** | **100.0** | **1,673** | **100.0** | **47** | **2.8** |

Revenues for the Data Business rose by 47 million euros (+2.8%) from 2007. This highlighted the company s ability to counter the contraction in data transmission and connectivity services supplied to companies with the development of revenues from ICT services which increased by 115 million euros (17.9%, of which 20.4% growth in services, accounting for 59% of revenues mix) due to specific turn-key offers for the Corporate and SME segment.

*Wholesale*

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) | | 2007 (Restated) | | Changes | |
| | (a) | % | (b) | % | (a-b) | % |
| | (millions of euros, except percentages) | | | | | |
| National Wholesale | 2,459 | 65.1 | 2,383 | 63.0 | 76 | 3.2 |
| International Wholesale | 1,318 | 34.9 | 1,409 | 37.0 | (91) | (6.5) |
| **Total Wholesale** | **3,777** | **100.0** | **3,792** | **100.0** | **(15)** | **(0.4)** |

Despite the effect of lower incoming traffic, revenues from national Wholesale, on the whole, rose by 76 million euros (+3.2%) over the prior year.

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The customer portfolio of Telecom Italia s Wholesale division reached approximately 5 million accesses for telephone services and 1.3 million for BroadBand services at year-end 2008. Such dynamics generated a positive impact on the national wholesale business which recorded, compared to the correlated revenues from access services to the Telecom Italia network, an increase of 113 million euros, taking into account the impact of the aforementioned reduction in regulated prices.

In international Wholesale services, revenues fell by 91 million euros (-6.5%) compared to 2007. The reduction is entirely due to lower transit revenues.

· **Revenues from Mobile Telecommunications**

Revenues from mobile telecommunications for 2008 amounted to 9,687 million euros, a decrease of 218 million euros compared to 2007.

In particular:

· **Outgoing voice revenues** were 4,969 million euros in 2008, a reduction of 291 million euros (-5.5%) from 2007, mainly due to the continuing impact of certain regulations, including in particular the Bersani Decree . In the fourth quarter, a consumer customer rate repricing policy brought the quarter s performance in line with the same quarter of the prior year (1,248 million euros, + 1 million euros compared to 2007).

· **Incoming voice revenues** were 1,684 million euros in 2008, an increase of 170 million euros (+11.2%).

· **Value-added Services revenues** amounted to 2,174 million euros in 2008 and grew by 12.7% compared to 2007. Such growth was boosted by the steady increase in BroadBand customers ( *web BroadBand active users* ) which rose by 1.4 million to 2.6 million users at year-end 2008.

This led to an increase in interactive VAS service revenues of more than 30% (+263 million euros) which entirely accounts for the above revenue growth over the prior year. Traditional VAS revenues (*messaging*) are basically in line with the prior year.

The growing contribution of these services was evidenced by the percentage of VAS revenues to all service revenues which for 2008 were approximately 25% (21% in 2007).

· **Handset sale revenues** were 860 million euros in 2008, an increase of 86 million euros compared to 2007. Although the overall quantity of handsets sold decreased, the growth in revenues was achieved by improving the product mix with handsets in the high-end range (3G, Netbooks and Internet Keys which accounted for more than 60% of handset volume sales in 2008) leading to higher average prices (+24%). This policy was a key factor in contributing to raising innovative VAS penetration.

**Operating profit** decreased by 255 million euros in 2008, or 4.5%, from 5,660 million euros in 2007 to 5,405 million euros in 2008, with the percentage of operating profit to revenues at 23.3% (23.5% in 2007). Operating profit performance was affected by higher depreciation and amortization charges (+172 million euros). That negative effect was partly offset by the increase in the net balance of gains (losses) on disposals of non-current assets (+15 million euros).

With regard to changes in costs, the following is noted:

- *acquisition of goods and services* totaled 9,649 million euros, a reduction of 411 million euros (-4.1%) compared to 2007. The change was mainly due to a decrease in the amount to be paid to other operators following the reduction in the termination rates of voice calls on the networks of other operators from fixed-line and mobile networks and a decrease in International Wholesale transits. Interconnection costs in 2007 were also affected by the resolution of disputes of a regulatory nature with other operators;

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· *employee benefits expenses* are detailed as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2008 (Restated) | 2007 (Restated) | Changes |
| | (millions of euros) | | |
| **Employee benefits expenses at payroll:** | | | |
| · Ordinary employee benefits | 3,351 | 3,412 | (61) |
| · Telecom Italia S.p.A. starting costs for early retirements agreements under Law 223/1991 | 287 | | 287 |
| · Profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 | | (79) | 79 |
| · Actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits | | (51) | 51 |
| **Total employee benefits expenses** | **3,638** | **3,282** | **356** |

Excluding, in 2008, the expenses connected with early retirements agreements under Law 223/1991 and, in the prior year, the benefits associated with the profit bonus and the actuarial recalculation of employee severance indemnity, employee benefits expenses decreased by 61 million euros. The reduction was due to the reduction in the average headcount which was partly offset by higher costs connected with contractual minimum salary increases;

· *other operating expenses* amounted to 718 million euros (1,399 million euros in 2007). The change was mainly due to lower impairments and expenses connected with receivables management and lower charges for accruals to provisions (-550 million euros).

The accruals for receivables management set aside in 2008 take into account the assessment of credit risks with consumers and business customers arising from recent changes in the macroeconomic environment and also measures to recover receivables put into place in the fixed-line area.

In 2007, accruals were higher despite the worsening economic conditions in 2008 due to provisions stemming from unfavorable developments relating to disputes of a regulatory nature with other fixed-line and mobile telephony operators and also accruals in connection with the management of overdue receivables from mobile customers with postpaid contracts and non-performing receivables from fixed-line customers with whom contractual relations had been terminated; higher expenses were also recorded for the management of receivables following settlement agreements with other operators.

**Capital expenditures** were 3,658 million euros in 2008 compared to 4,064 million euros in 2007, a decrease of 406 million euros, or 10.0%. The percentage of capital expenditures to revenues is equal to 15.7% (16.9% in 2007). In particular:

· **Capital expenditures for fixed-line telecommunications** were 2,500 million euros (a decrease of 220 million euros compared to 2007) and were principally earmarked for BroadBand development and new services (overall approximately 41% of total fixed-line investments) and the upgrading of the network and information systems (approximately 40%). The remaining capital expenditures were directed to the

consolidation of traditional services and meeting regulatory provisions and the law.

As for BroadBand development and new services, the most important commitment continued to be ADSL Alice, with access speeds up to 20 Mbps, linked also to the IPTV service offering.

Capital expenditures also included work to develop the new access platform in fiber optics (Next Generation Network 2 or NGN2) to provide very high speed services.

Other capital expenditures were allocated to telephone and data networks and operating and support systems for commercial activities. These include the Next Data Center Generation project geared to optimizing the Data Center server structure and support Information Technology packages aimed at companies.

· **Capital expenditures for mobile telecommunications** amounted to 989 million euros (a decrease of 150 million euros compared to 2007). Approximately 32% was for handset packages, using contracts that are usually for two years, aimed at increasing customer loyalty.

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The development of the UMTS and HSDPA third-generation network (approximately 20% of mobile capital expenditures including the core network) was aimed at increasing coverage for high-speed Internet (up to 7 Mbps) and transmission of multimedia content.

Actions taken to extend the range of services offered to customers are also important (MTV mobile plans addressed to the youth market, Family solutions, Home Zone and Milleuna TIM etc.) and entailed capital expenditures equal to approximately 14% of total mobile investments.

The remaining amount of capital expenditures was being allocated to the network platform (approximately 11%) primarily to upgrade software in exchange centers, the development of information systems (approximately 17%) to support the acquisition, caring and after-sales phases and the traditional GSM services platform (approximately 6%).

**Employees** were 61,816, with a reduction of 2,546 compared to December 31, 2007, and included 638 people with temporary work contracts (1,278 at December 31, 2007).

v **Brazil**

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (Restated) | 2007 (Restated) | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | (millions of Brazilian reais, except percentages and employees) | | | |
| Revenues | 5,208 | 4,990 | 13,951 | 13,293 | 658 | 4.9 |
| Operating profit | 189 | 150 | 507 | 399 | 108 | 27.1 |
| · *% of Revenues* | *3.6* | *3.0* | *3.6* | *3.0* | | |
| Capital expenditures | 1,348 | 865 | 3,612 | 2,305 | 1,307 | 56.7 |
| Employees at year-end (units) | 10,285 | 10,030 | 10,285 | 10,030 | 255 | 2.5 |

**Revenues** increased by 658 million Brazilian reais, or 4.9%, from 13,293 million Brazilian reais in 2007 to 13,951 million Brazilian reais in 2008, recording an increase in revenues from services of 6.1%, within which VAS revenues rose by 31% compared to 2007. The growth of the customer base, together with steady competitive pressure that featured promotions, especially Internet traffic packages, gradually diluted average monthly revenues per user, which was the highest in the Brazilian market during this period.

**Operating profit** increased by 108 million Brazilian reais in 2008, or 27.1%, from 399 million Brazilian reais in 2007 to 507 million Brazilian reais in 2008, with the percentage of operating profit to revenues at 3.6% (3.0% in 2007). This result was due to higher revenues and lower depreciation charges since the TDMA network was completely depreciated.

This result was achieved through a strict cost control policy as competition in the Brazilian market eroded prices and per unit service margins.

With regard to changes in costs, the following is noted:

- *acquisition of goods and services,* totaling 8,107 million Brazilian reais, increased by 8.3% compared to 2007 (7,487 million Brazilian reais), mainly as a result of higher interconnection costs, due to the rise in traffic generated, and other selling costs;

- *employee benefit expenses,* amounting to 626 million Brazilian reais, rose by 31 million Brazilian reais (+5.2%) from 2007 owing to an increase in headcount where the average went from 8,847 in 2007 to 9,240 in 2008. The percentage of employee benefit expenses to revenues was 4.5% in 2008, the same as 2007;

- *other operating expenses* were 2,381 million Brazilian reais (2,185 million Brazilian reais in 2007) and included taxes on revenues, indirect taxes and telecommunications operating fees (1,496 million

Brazilian reais in 2008 compared to 1,387 million Brazilian reais in 2007), impairments and losses on receivables (749 million Brazilian reais in 2008 compared to 715 million Brazilian reais in the prior year), mainly regarding the Televendita sales channel, and other charges for accruals and sundry items (136 million Brazilian reais in 2008 compared to 83 million Brazilian reais in 2007).

**Capital expenditures** were 3,612 million Brazilian reais in 2008 compared to 2,305 million Brazilian reais in 2007, an increase of 1,307 million Brazilian reais, or 56.7%. This increase was due to the purchase of the 3G licenses (1,239 million Brazilian reais), the growth of the customer base and investments in network infrastructures and third-generation IT.

On April 29, 2008, the contracts relating to the licenses for 3G services were signed. At that time, Tim Brasil paid 10% of the total value of the licenses acquired and paid the remaining 90% in December 2008.

The allotted licenses cost was 1,325 million Brazilian reais; their present value was 1,239 million Brazilian reais and the difference of 86 million Brazilian reais was recorded in finance expenses.

**Employees** at December 31, 2008 were 10,285 units, up 2.5% compared to December 31, 2007 (10,030 units).

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 287 | 263 | 24 | 9.1 |
| Operating profit (loss) | (113) | (117) | 4 | 3.4 |
| · *% of Revenues* | *(39.4)* | *(44.5)* | | |
| Capital expenditures | 50 | 69 | (19) | (27.5) |
| Employees at year-end (units) | 967 | 1,016 | (49) | (4.8) |

On December 1, 2008, Telecom Italia Media S.p.A. sold the Pay-per-View business segment realizing a consolidated gain, net of transaction costs, of 9 million euros, and received proceeds of 16 million euros.

The table below sets out the main operating data of the segment sold for the periods indicated.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 1.1 11.30.2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Revenues | 71 | 57 | 14 | 24.6 |
| Operating profit (loss) | (18) | (13) | (5) | (38.5) |
| · *% of Revenues* | *(25.4)* | *(22.8)* | | |

Restated data for 2008 and 2007 are reported below and excludes the results of the segment sold.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 224 | 215 | 9 | 4.2 |
| Operating profit (loss) | (104) | (104) | | |
| · *% of Revenues* | *(46.4)* | *(48.4)* | | |
| Capital expenditures | 49 | 67 | (18) | (26.9) |
| Employees at year-end (units) | 967 | 992 | (25) | (2.5) |

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**Revenues** were 224 million euros, an increase of 4.2% compared to 215 million euros in 2007. The increase in revenues was attributable to:

- **revenues from the Free to Air analog business area** of 154 million euros, down 6 million euros (-3.9%) compared to 2007. Lower revenues from advertising sales (-13 million euros, of which -5 million euros related to La7 and -8 million euros to MTV), were partly compensated by the increase in the production of content and events sold to third parties (+7 million euros);

- **revenues from Multimedia operations** were 44 million euros and grew by 40.3% (+13 million euros) compared to 2007 (31 million euros). This change was due to an increase in the contribution by the Content Competence Center operations for Telecom Italia (+5 million euros), the launch of MTV Mobile in 2008 (+7 million euros) and higher revenues from the broadcasting of five Satellite Channels on Sky (compared to three Satellite Channels in 2007);

- **revenues from Digital Terrestrial operations** were 17 million euros, compared to 14 million euros in 2007 (+16.9%). Higher sales from the lease of digital band by the Network Operator contributed to this performance;

- **revenues from the News business area** were 10 million euros, up 1.0% over 2007.

**Operating profit (loss)** was a loss of 104 million euros as in 2007. This result was also due to higher amortization charges of La7 and MTV Italia television rights (+4 million euros) offset by lower depreciation charges as a result of extending the useful life of Digital Terrestrial infrastructures (-3 million euros) following amendments to the law in the second half of 2008: in fact, on August 4, 2008, an amendment to the law extended the useful life of digital frequencies from June 30, 2018 to December 31, 2028.

In particular:

- operating profit (loss) of **Free to Air analog business area** was a loss of 74 million euros, up by 12 million euros compared to 2007 (-62 million euros). The contraction in advertising revenues was more than offset by decisive action taken to cut operating costs. However, expenses for organizational restructuring costs had an impact on operating profit of 6 million euros, including the costs to reach a settlement on the dispute with La7 journalists which will have considerable positive repercussions in the next two years. The change in the contribution to operating profit by MTV compared to 2007 is almost entirely due to the decline in advertising sales, which was only partly compensated by a reduction in costs and includes organizational restructuring expenses;

- besides the aforementioned increase in sales, **Digital Terrestrial operations** reported an improvement in operating loss of 5 million euros compared to 2007 (-32 million euros), due to a reduction in costs attributable to a more efficient management of operations (1 million euros);

- the **Multimedia operations** improved its operating profit by 7 million euros over the prior year, from 9 million euros in 2007 to 16 million euros in 2008;

- the **News business area** posted a negative operating profit of 7 million euros in 2008 compared to a negative 6 million euros in 2007. The change is entirely due to organizational restructuring expenses.

**Capital expenditures** were 49 million euros (67 million euros in 2007). They were mainly investments in the Television area and included the acquisition of infrastructure for the development of the Digital Terrestrial network (10 million euros) and the acquisition of television rights extending beyond one year (27 million euros). In 2007, capital expenditures included 17 million euros for the acquisition of frequencies in the Sicily region.

**Employees** at December 31, 2008 were 967 units, a reduction of 25 units compared to December 31, 2007 and included 78 people with temporary work contracts (70 at December 31, 2007).

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v **OLIVETTI**

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages and employees) | | | |
| Revenues | 352 | 408 | (56) | (13.7) |
| Operating profit (loss) | (37) | (66) | 29 | 43.9 |
| · *% of Revenues* | *(10.5)* | *(16.2)* | | |
| Capital expenditures | 3 | 8 | (5) | (62.5) |
| Employees at year-end (units) | 1,194 | 1,279 | (85) | (6.6) |

**Revenues** were 352 million euros in 2008, a decrease of 56 million euros compared to 2007.

In 2008 there was a significant reduction in the sales of faxes using ink-jet technology and related accessories, as a direct consequence of the installation of fewer faxes. Following the decision to suspend the development and manufacture of multifunctional ink-jet products, sales decreased considerably, despite the supply contract with an important foreign customer which sustained sales in the first six months of 2008. Printers for banking teller applications, although adversely affected by a reduction in prices due to the weakness of the U.S. dollar against the euro, basically held firm in terms of volumes.

The improvement in the results reached in the Italian market was due to the supply of 11,000 counter printers to Poste Italiane S.p.A. and the growing importance of the volumes of fiscal cash registers.

Professional products for the office, copiers and related accessories decreased significantly compared to 2007 in the black and white copy segment, in quantity (-22%) and in average prices (-10% on the medium/high range models), which were only partly offset by higher volumes in the color laser copier segment (+10% in quantity).

During the last part of the year, an important project was begun in collaboration with Telecom Italia for the supply of terminals specialized for payments and services at tobacconist s shops in Italy.

**Operating loss** was 37 million euros, an improvement of 29 million euros compared to 2007 (a loss of 66 million euros). Operating loss was also affected by employee benefits expenses in connection with expenses linked to the collective dismissal procedure (mobility) under Law 223/91 signed with the labor unions on December 11, 2008, charges for accruals and expenses for termination benefit incentives owing to a reorganization of foreign commercial subsidiaries and charges for accruals for manager termination benefit incentives.

**Capital expenditures** amounted to 3 million euros, with a decrease of 5 million euros compared to 2007.

**Employees** were 1,194 units (1,088 in Italy and 106 abroad) at December 31, 2008 compared to 1,279 units (1,143 in Italy and 136 abroad) at December 31, 2007.

v **International Investments**

**BBNed group**

The following table sets forth, for the periods indicated, certain financial and other data for the BBNed Group.

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 (Restated) (a) | 2007 (Restated) (b) | Changes (a-b) | % |
| | (millions of euros, except percentages) | | | |
| Revenues | 84 | 77 | 7 | 9.1 |
| Operating profit (loss) | (17) | (4) | (13) | |
| · *% of Revenues* | *(20.2)* | *(5.2)* | | |
| Capital expenditures | 25 | 14 | 11 | 78.6 |

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The key results for the year 2008 can be summarized as follows:

- **revenues** amounted to 84 million euros, 7 million euros higher than in 2007 (+9.1%). The customer portfolio of approximately 166,000 units was approximately 22,000 lower than on December 31, 2007 owing to the loss of lines in ADSL Wholesale (-38,000), Fiber and Voice Wholesale (-24,000), which was partly offset by the growth of ADSL connections in the Retail area (+40,000);

- **operating profit (loss)** was a loss of 17 million euros in 2008; in 2007 it was a loss of 4 million euros;

- **capital expenditures** totaled 25 million euros, increasing 11 million euros compared to the prior year (14 million euros).

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Item 5. Operating And Financial Review And Prospects Liquidity And Capital Resources

## 5.4 LIQUIDITY AND CAPITAL RESOURCES

The Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks.

The Group defines the guidelines for directing operations, identifying the most appropriate financial instruments to meet prefixed objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

The Group s goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin in terms of liquid resources and syndicated committed credit lines which enables it to cover refinancing needs for the next 18-24 months.

### 5.4.1 LIQUIDITY

The Telecom Italia Group s primary source of liquidity is cash generated from operations and its principal uses of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders, and strategic investments, such as international acquisitions and investments. In 2009, conditions in the European and U.S. financial markets allowed the Group to issue new bonds and enter into new funding arrangements under favorable conditions.

For additional details, reference should be made to the Note Financial risk management of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The table below summarizes, for the periods indicated, the Telecom Italia Group s cash flows.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | (millions of euros) | |
| Cash flows from (used in) operating activities | 5,475 | 8,261 | 8,395 |
| Cash flows from (used in) investing activities | (4,569) | (6,672) | (4,045) |
| Cash flows from (used in) financing activities | (881) | (2,409) | (5,225) |
| Cash flows from (used in) Discontinued operations/Non-current assets held for sale(*) | 61 | (41) | 95 |
| **Aggregate cash flows (A)** | **86** | **(861)** | **(780)** |
| **Net cash and cash equivalents (**) at beginning of the year (B)** | **5,226** | **6,204** | **6,960** |
| **Net foreign exchange differences on net cash and cash equivalents (C)** | **172** | **(117)** | **24** |
| **Net cash and cash equivalents (**) at end of the year (D=A+B+C)** | **5,484** | **5,226** | **6,204** |

(*) For further details please see the Note Discontinued operations/non-current assets held for sale of the Consolidated Financial Statements included elsewhere in this Annual Report.

(**) For further details please see the Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007 of the Consolidated Financial Statements included elsewhere in this Annual Report.

***Cash flows from operating activities.*** Cash flows from operating activities were 5,475 million euros in 2009, 8,261 million euros in 2008 and 8,395 million euros in 2007.

**2009 compared to 2008**

The decrease in 2009 compared to 2008 of 2,786 million euros was primarily attributable to:

- a decrease in depreciation and amortization of 125 million euros (5,551 million euros in 2009 compared to 5,676 million euros in 2008);
- the negative effect of impairment losses (reversals) on non-current assets (including investments) of 185 million euros (a net source of 27 million euros in 2009 compared to a net source of 212 million euros in 2008);
- the negative effect of change in employee benefits liabilities of 406 million euros (a net use of 173 million euros in 2009 compared to a net source of 233 million euros in 2008);

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- the negative effect of change in trade receivables and net amounts due from customers on construction contracts of 401 million euros (a net source of 336 million euros in 2009 compared to a net source of 737 million euros in 2008);

- the negative effect of change in trade payables of 407 million euros (a net use of 995 million euros in 2009 compared to a net use of 588 million euros in 2008);

- the negative effect of net change in current income tax receivables/payables of 2,248 million euros (a net use of 1,170 million euros in 2009 compared to a net source of 1,078 million euros in 2008).

Such reductions in cash flows were partially offset by:

- the positive effect of net change in deferred tax assets and liabilities equal to 983 million euros (from a net use of 1,031 million euros in 2008 to a net use of 48 million euros in 2009);

- the increase in net gains realized on disposals of non-current assets (including investments) of 92 million euros (from a net use of 37 million euros in 2008 to a net source of 55 million euros in 2009);

- the positive effect of change in inventories of 44 million euros (from a net use of 74 million euros in 2008 to a net use of 30 million euros in 2009).

**2008 compared to 2007**

The decrease in 2008 compared to 2007 of 134 million euros was primarily attributable to:

- a reduction of 242 million euros in profit from continuing operations (a profit of 2,217 million euros in 2008 compared to a profit of 2,459 million euros in 2007);

- the negative effect of net change in deferred tax assets and liabilities equal to 1,966 million euros (from a net source of 935 million euros in 2007 to a net use of 1,031 million euros in 2008);

- the negative effect of change in trade payables of 1,170 million euros (from a net source of 582 million euros in 2007 to a net use of 588 million euros in 2008).

Such reductions in cash flows were partially offset by:

-

an increase in depreciation and amortization of 158 million euros (5,676 million euros in 2008 compared to 5,518 million euros in 2007);

- the positive effect of impairment losses (reversals) on non-current assets (including investments) of 246 million euros (a net source of 212 million euros in 2008 compared to a net use of 34 million euros in 2007);

- the decrease in net gains realized on disposals of non-current assets (including investments) of 430 million euros (from a net gain of 467 million euros in 2007 to a net gain of 37 million euros in 2008);

- the positive effect of change in employee benefits liabilities of 447 million euros (a net source of 233 million euros in 2008 compared to a net use of 214 million euros in 2007);

- the positive effect of change in trade receivables and net amounts due from customers on construction contracts of 624 million euros (a net source of 737 million euros in 2008 compared to a net source of 113 million euros in 2007);

- the positive effect of net change in current income tax receivables/payables of 861 million euros (a net source of 1,078 million euros in 2008 compared to a net source of 217 million euros in 2007);

- the positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 514 million euros (a net use of 98 million euros in 2008 compared to a net use of 612 million euros in 2007).

***Cash flows used in investing activities.*** Cash flows used in investing activities were 4,569 million euros in 2009, 6,672 million euros in 2008 and 4,045 million euros in 2007.

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**2009 compared to 2008**

The decrease in cash used in investing activities in 2009 compared to 2008 of 2,103 million euros was mainly due to:

- a decrease in capital expenditures (tangible and intangible assets on a cash basis) of 1,535 million euros (3,924 million euros in 2009 compared to 5,459 million euros in 2008);
- a positive effect of change in financial receivables and other financial assets of 1,064 million euros (a net use of 692 million euros in 2009 compared to a net use of 1,756 million euros in 2008).

Such effects were partially offset by:

- a decrease of 465 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net use of 13 million euros in 2009 compared to a net source of 452 million euros in 2008);
- a decrease in proceeds from sale/repayments of intangible, tangible and other non-current assets of 31 million euros (a net source of 66 million euros in 2009 compared to a net source of 97 million euros in 2008).

**2008 compared to 2007**

The increase in cash used in investing activities in 2008 compared to 2007 of 2,627 million euros was mainly due to:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 757 million euros (5,459 million euros in 2008 compared to 4,702 million euros in 2007);
- a negative effect of change in financial receivables and other financial assets of 1,882 million euros (a net use of 1,756 million euros in 2008 compared to a net source of 126 million euros in 2007);
- a decrease in proceeds from sale/repayments of intangible, tangible and other non-current assets of 1,068 million euros (a net source of 97 million euros in 2008 compared to a net source of 1,165 million euros in 2007).

Such effects were partially offset by:

- an increase of 449 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (452 million euros in 2008 compared to 3 million euros in 2007);

- in 2008, the acquisition of control of subsidiaries or other businesses, net of cash acquired, was nil (in 2007 amounted to 636 million euros and was principally related to the purchase of the controlling interest of the Internet activities of AOL Germany, the entire stake of InterNLnet B.V. and Shared Service Center).

***Cash flows used in financing activities***. Cash flows used in financing activities were 881 million euros in 2009, 2,409 million euros in 2008 and 5,225 million euros in 2007.

*Cash flows used in financing activities* in 2009 of 881 million euros reflected mainly the following:

- an increase in financial liabilities and other of 180 million euros, as a result of the issuance of new debt (5,563 million euros) partially offset by repayments of non-current financial liabilities (4,260 million euros) and the change in current financial liabilities and other (1,123 million euros);

- the payment of dividends of 1,050 million euros.

*Cash flows used in financing activities* in 2008 of 2,409 million euros reflected mainly the following:

- a decrease in financial liabilities and other of 718 million euros, as a result of repayments of non-current financial liabilities (4,302 million euros) partially offset by the issuance of new debt (2,317 million euros) and the change in current financial liabilities and other (1,267 million euros);

- the payment of dividends of 1,665 million euros.

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*Cash flows used in financing activities* in 2007 of 5,225 million euros reflected the following:

- a decrease in financial liabilities and other of 2,394 million euros, as a result of repayments of non-current financial liabilities (5,218 million euros) partially offset by the issuance of new debt (2,622 million euros) and the change in current financial liabilities and other (202 million euros);

- the payment of dividends of 2,831 million euros.

### 5.4.2 Capital Resources

***Net Financial Debt***

Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see 5.3.3 Non-GAAP Financial Measures .

On a consolidated basis, at December 31, 2009 Net Financial Debt was 34,747 million euros compared to 34,039 million euros at December 31, 2008 (an increase of 708 million euros).

The net financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities.

In our 2010-2012 Strategic Plan we confirmed among our strategic priorities and targets the ongoing reduction in the Group s net financial debt.

Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 , included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors .

There can be no assurance that we will be able to achieve the financial target we have established.

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Net Financial Debt is detailed in the following table:

| | 2009 | As of December 31, 2008 (Restated) | 2007 (Restated) |
|---|---|---|---|
| | | (millions of euros) | |
| **GROSS FINANCIAL DEBT** | | | |
| **Non-current financial liabilities (Long-term debt)** | | | |
| Bonds | 26,369 | 25,680 | 27,559 |
| Amounts due to banks, other financial payables and liabilities | 8,818 | 9,134 | 7,683 |
| Finance lease liabilities | 1,565 | 1,713 | 1,809 |
| | **36,752** | **36,527** | **37,051** |
| **Current financial liabilities (Short-term debt), excluding financial liabilities relating to Discontinued operations/Non-current assets held for sale** | | | |
| Bonds | 3,667 | 4,497 | 4,521 |
| Amounts due to banks, other financial payables and liabilities | 3,069 | 1,496 | 1,802 |
| Finance lease liabilities | 250 | 274 | 262 |
| | **6,986** | **6,267** | **6,585** |
| **Financial liabilities relating to Discontinued operations/Non-current assets held for sale** | **659** | | |
| **GROSS FINANCIAL DEBT (A)** | **44,397** | **42,794** | **43,636** |
| **FINANCIAL ASSETS** | | | |
| **Non-current financial assets** | | | |
| Securities other than investments | 15 | 15 | 9 |
| Financial receivables and other non-current financial assets | 1,092 | 2,648 | 686 |
| | **1,107** | **2,663** | **695** |
| **Current financial assets, excluding financial assets relating to Discontinued operations/Non-current assets held for sale** | | | |
| Securities other than investments | 1,843 | 185 | 390 |
| Financial receivables and other current financial assets | 1,115 | 491 | 377 |
| Cash and cash equivalents | 5,504 | 5,416 | 6,473 |
| | **8,462** | **6,092** | **7,240** |
| **Financial assets relating to Discontinued operations/Non-current assets held for sale** | **81** | | |
| **FINANCIAL ASSETS (B)** | **9,650** | **8,755** | **7,935** |
| **NET FINANCIAL DEBT (A B)** | **34,747** | **34,039** | **35,701** |

The non-current portion of gross financial debt was 36,752 million euros at December 31, 2009 (36,527 million euros at December 31, 2008 and 37,051 million euros at December 31, 2007) and corresponds to 82.8% of total gross financial debt.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk 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.

Furthermore, in order to determine its interest rate exposure, the Group defines an optimum composition for the fixed-rate and floating-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum blend of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at around 60%-70% fixed-rate and 40%-30% floating-rate.

In managing market risk, the Group adopts a guideline policy for debt management using derivative instruments and mainly uses IRS and CCIRS derivative financial instruments.

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The volatility of interest rates and exchange rates featured prominently in the financial markets beginning in the fourth quarter of 2008, significantly impacted the fair value measurement of the derivative positions and the related financial assets and liabilities at the end of 2008.

v **Change In Net Financial Debt During** 2009

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2009:

In particular:

- **Capital expenditures on an accrual basis** were 4,543 million euros in 2009, a decrease of 497 million euros compared to 2008. The breakdown is as follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | | 2008 (Restated) | | Changes |
| | (a) | % | (b) | % | (a-b) |
| | (millions of euros, except percentages) | | | | |
| Domestic | 3,523 | 77.5 | 3,658 | 72.6 | (135) |
| Brazil Purchase of 3G licenses | | | 477 | 9.4 | (477) |
| Brazil Other investments | 964 | 21.2 | 871 | 17.3 | 93 |
| Media, Olivetti and other activities | 64 | 1.4 | 79 | 1.6 | (15) |
| *Adjustments* | *(8)* | *(0.1)* | *(45)* | *(0.9)* | *37* |
| **Total** | **4,543** | **100.0** | **5,040** | **100.0** | **(497)** |
| *% on revenues* | *16.7* | | *17.4* | | |

Capital expenditures in 2008 included 477 million euros relating to the purchase of the mobile telephone licenses for the Brazil Business Unit s 3G service. The reduction in the Domestic Business Unit, although including 89 million euros for the purchase of frequencies assigned to the operator IPSE, is also due to the impact of programs to cut costs and capital expenditures begun in 2008.

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- **Disposal of investments and other divestitures**

Disposal of investments and other divestitures amounted to 53 million euros in 2009 (599 million euros in 2008) and refers principally to the sale of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark (for total cash receipts of 13 million euros), the sale of the investment in Telecom Media News, and also the disposal of other tangible and intangible assets. In particular, the disposals of tangible assets included the cancellation of a contract for the purchase of an aircraft which involved the manufacturer returning of the advances that had been paid by Telecom Italia (about 21 million euros).

The disposal of investments and other divestitures in 2008 were mainly related to the sale, in August 2008, of the Liberty Surf group (euro 744 million, including the deconsolidation of the net financial debt of the subsidiary sold) and the sale, in December 2008, of the Pay-per-View Business segment.

- **Financial investments and treasury shares buyback**

Financial investments and treasury shares buybacks amounted to 65 million euros in 2009, and refers not only to the entry of Intelig in the scope of consolidation but also to the buyback of a total of 11.4 million Telecom Italia ordinary shares purchased to service the top management incentive plan denominated 2008 TOP Plan. The average unit price was 0.92959 euros per share (including brokerage commissions) with a total investment of 11 million euros.

Moreover, in July 2009, the Parent, Telecom Italia, purchased on the market 39,500 Telecom Italia Media savings shares to add to the 221,000 Telecom Italia Media savings shares already held. Such purchases required a total disbursement of 4,470 euros, corresponding to the average cost of 0.11317 euros per share (including commissions).

The purchases of Telecom Italia and Telecom Italia Media shares were made through Mediobanca pursuant to a mandate to purchase shares on behalf of the Company in complete autonomy and independently of Telecom Italia and in accordance with the Regulation of the markets organized and operated by Borsa Italiana S.p.A. and the relative instructions.

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The following should also be taken into account with respect to net financial debt:

- **Sale of receivables to factoring companies**

The sale of receivables to factoring companies finalized in 2009 led to a positive effect on net financial debt at December 31, 2009 of 1,034 million euros (794 million euros at December 31, 2008).

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v **Change in Net Financial Debt During 2008**

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2008:

(*) Net of cash flow from assets disposed of.

In particular:

- **Capital expenditures on an accrual basis** were 5,040 million euros in 2008 (5,031 million euros in 2007). The breakdown is as follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 (Restated) | | 2007 (Restated) | | Changes |
| | (a) | % | (b) | % | (a-b) |
| | (millions of euros, except percentages) | | | | |
| Domestic | 3,658 | 72.6 | 4,064 | 80.8 | (406) |
| Brazil | 1,348 | 26.7 | 865 | 17.2 | 483 |
| Media, Olivetti and other activities | 79 | 1.6 | 107 | 2.1 | (28) |
| *Adjustments* | *(45)* | *(0.9)* | *(5)* | *(0.1)* | *(40)* |
| **Total** | **5,040** | **100.0** | **5,031** | **100.0** | **9** |

The percentage of capital expenditures to revenues went from 16.9% in 2007 to 17.4% in 2008.

The increase of 483 million euros in the Brazil Business Unit is due to the purchase of the mobile telephone licenses for operating 3G services.

- **Financial investments and treasury shares buyback**

In 2008, **financial investments** made were only 6 million euros, of which 5 million euros were used for the Media Business Unit s purchase of a 9% stake in Air P TV Development Italy S.r.l. (now named DAHLIA TV S.r.l.) as part of the agreement for the disposal of the Pay-per-View business. In 2007, financial investments amounted to 635 million euros and were mainly related to the acquisition of the AOL internet business in Germany.

The **treasury shares buyback** refers to the purchase of 25 million Telecom Italia ordinary shares in September 2008 to service the management incentive plan *Performance Share Granting 2008* .

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The buyback was carried out through Mediobanca which operated with a mandate for the purchase of the shares on behalf of the Company in complete autonomy and independently of Telecom Italia and in accordance with applicable market rules and regulations and the relative instructions.

The buyback required a total outlay of 27 million euros, corresponding to an average price per share of 1.08451 euros (including agent fees).

- **Disposal of investments and other divestitures**

The disposal of investments and other divestitures amounted to 599 million euros in 2008 (1,074 million euros in 2007). The amount mainly relates to the disposal of Liberty Surf group in August 2008 (744 million euros, including the deconsolidation of the net financial debt of the subsidiary sold), the sale of the Pay-per-View business segment in December 2008 by Telecom Italia Media (16 million euros), net of cash flows used during the period by the companies sold, as well as the reimbursement of capital and distribution of dividends by associates.

***

The following should also be mentioned with respect to net financial debt:

- **Sale of receivables to factoring companies**

The sale of receivables to factoring companies finalized in 2008 led to a positive effect on net financial debt at December 31, 2008 of 794 million euros (755 million euros at December 31, 2007).

***Gross Financial Debt***

On a consolidated basis, at December 31, 2009, our gross financial debt amounted to 44,397 million euros (42,794 million euros at December 31, 2008) and included non-current financial liabilities (long-term debt) of 36,752 million euros (36,527 million euros at December 31, 2008) and current financial liabilities (short-term debt) of 6,986 million euros (6,267 million euros at December 31, 2008).

As of December 31, 2009 approximately 63.3% of our gross financial debt (including Discontinued operations/Non current assets held for sale) was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Japanese Yen.

The following table sets out the currency composition of our gross financial debt:

| | As of December 31, 2009 (millions of foreign currency) | (millions of euros) | As of December 31, 2008 (Restated) (millions of foreign currency) | (millions of euros) |
|---|---|---|---|---|
| USD | 16,296 | 11,312 | 13,898 | 9,986 |
| GBP | 2,527 | 2,845 | 1,780 | 1,869 |
| BRL | 3,177 | 1,267 | 2,408 | 740 |
| JPY | 30,548 | 229 | 54,918 | 435 |
| EURO | | 28,085 | | 29,764 |
| | | **43,738** | | **42,794** |
| Discontinued operations/Non current assets held for sale | | 659 | | |
| **Total gross financial debt** | | **44,397** | | **42,794** |

For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

- the Telecom Italia Euro Medium Term Note ( **EMTN** ) Programme. The maximum amount permitted to be issued under the Programme, including in multiple tranches and multiple currencies, is 15 billion euros;

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- the **Form F-3 Registration Statement**, filed with the Securities and Exchange Commission on December 29, 2008 which allows for the issuance, by Telecom Italia S.p.A. s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by Telecom Italia S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;

- the **Olivetti Euro Medium Term Note Programme**, as updated and amended on June 8, 2001 and May 14, 2002, which allowed for the issuance of a total amount of 15 billion euros in debt (or the equivalent in other currencies), at various terms, rates and maturities;

- the Old Telecom Italia Global Medium Term Note Program ( **Global Note Program** ), which allowed for the issuance of a total amount of U.S.$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

Telecom Italia issues new long-term debt only from the first two programs of the above list. The following table highlights the utilization of the above mentioned programs at the end of 2009.

| | As of December 31, 2009 | |
|---|---|---|
| | EMTN Programme (millions of euros) | Form F-3 Registration Statement (millions of U.S.$) |
| Total amount of the program (max outstanding notes) | 15,000.00 | Indeterminate |
| Notes and bonds issued | 15,195.07 | 16,600.00 |
| Notes and bonds repaid | 3,170.14 | 1,000.00 |
| Net utilization of the program | 12,024.93 | 15,600.00 |
| Remaining available amount of the program | 2,975.07 | |

***Notes and bonds (including convertible bonds)***

At December 31, 2009 we had notes and bonds outstanding of 30,036 million euros (30,177 million euros at December 31, 2008). Their nominal repayment amount was 29,106 million euros, an increase of 286 million euros compared to December 31, 2008 (28,820 million euros).

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Changes in bonds during 2009 were as follows:

| | Currency | Amount (millions) | |
|---|---|---|---|
| **NEW ISSUES** | | | **Issue date** |
| Telecom Italia S.p.A. 500 million euros, 7.875% maturity date 1/22/2014 | Euro | 500 | 1/22/2009 |
| Telecom Italia S.p.A. 650 million euros, 6.75% maturity date 3/21/2013 | Euro | 650 | 3/19/2009 |
| Telecom Italia S.p.A. 850 million euros, 8.25% maturity date 3/21/2016 | Euro | 850 | 3/19/2009 |
| Telecom Italia S.p.A. 750 million pounds sterling, 7.375% maturity date 12/15/2017 | GBP | 750 | 5/26/2009 |
| Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A., 1,000 million U.S.$, 6.175% maturity date 6/18/2014 | USD | 1,000 | 6/18/2009 |
| Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A., 1,000 million U.S.$, 7.175% maturity date 6/18/2019 | USD | 1,000 | 6/18/2009 |
| **REPAYMENTS** | | | **Repayment date** |
| Telecom Italia Finance S.A. 5.15%, issue, guaranteed by Telecom Italia S.p.A. | Euro | 1,450(*) | 2/9/2009 |
| Telecom Italia S.p.A. Floating Rate Notes Euribor 3 months +0.60% | Euro | 110 | 3/30/2009 |
| Telecom Italia Finance S.A. 6.575%, issue, guaranteed by Telecom Italia S.p.A. | Euro | 1,849(**) | 7/30/2009 |
| **BUYBACKS** | | | **Buyback period** |
| Telecom Italia Finance S.A. 1,849(**) million euros, 6.575% maturing July 2009 | Euro | 253.77 | January June |
| Telecom Italia Finance S.A. 119 million euros, Floating Rate Notes maturing June 2010 | Euro | 20.00 | March May |
| Telecom Italia S.p.A. 796 million euros, Floating Rate Notes maturing June 2010 | Euro | 53.75 | April May |
| Telecom Italia Finance S.A. 1,997 million euros, 7.50% maturing April 2011 | Euro | 2.68 | October |

NOTES

(*) Net of 50 million euros of bonds repurchased by the company in 2008.

(**) Net of 107 million euros and 254 million euros of bonds repurchased by the company respectively in 2008 and in 2009.

**Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group:** 348 million euros (nominal amount) as at December 31, 2009, the same as at December 31, 2008.

**Bond buybacks:** in 2009, as in 2008, the Telecom Italia Group bought back bonds in order to:

- give investors a further possibility of monetizing their positions;
- partially repay some debt securities before maturity, increasing the overall return on the Group s liquidity without taking any additional risks.

For further details about the outstanding notes and bonds please see also Note Financial liabilities (current and non-current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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***Revolving Credit Facility and Term Loan***

The composition and drawdown of the syndicated committed credit lines available at December 31, 2009, represented by the Term Loan ( **TL** ) for 1.5 billion euros expired in January 2010 (repaid using available cash) and the Revolving Credit Facility ( **RCF** ) for a total of 8 billion euros expiring August 2014, are presented in the following table:

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Committed | Drawdown | Committed | Drawdown |
| | (billions of euros) | | | |
| Term Loan maturity 2010 | 1.5 | 1.5 | 1.5 | 1.5 |
| Revolving Credit Facility maturity 2014 | 8.0 | 1.5 | 8.0 | 1.5 |
| **Total** | **9.5** | **3.0** | **9.5** | **3.0** |

Lehman Brothers Bankhaus AG London Branch bank is a Lender under the Revolving Credit Facility and Term Loan for the following amounts:

- under the Revolving Credit Facility, the bank has a commitment for 127 million euros of which 23.8 million euros has been disbursed;
- under the Term Loan, the bank has a commitment for 19.9 million euros, for an amount completely disbursed, duly repaid at the line s expiration date (January 28, 2010).

With regard to the commitment by Lehman Brothers Bankhaus AG, the Telecom Italia Group has not received any communication from Lehman Brothers Bankhaus AG, or from its representatives or directors or Agent of the committed facilities which, at this time, entail changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc..

***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) is 7.46 years.

The Group s average cost, considered as the cost for the period calculated on an annual basis and derived from the ratio of debt-related expenses to average exposure, is equal to about 5.4%.

The maturities of financial liabilities in terms of the expected nominal repayment amount, as contractually agreed, are as follows:

| | Nominal repayment amount (millions of euros) |
|---|---|
| Maturing by December 31, of the year: | |
| 2010(*) | 6,483 |
| 2011 | 4,935 |
| 2012 | 3,699 |
| 2013 | 4,444 |
| 2014 | 5,627 |
| After 2014 | 16,807 |
| **Total** | **41,995** |

(*) Including the nominal repayment amount of current liabilities of 477 million euros.

***Current financial assets and Liquidity margin***

The Telecom Italia Group s available liquidity margin, calculated as the sum of Cash and cash equivalents and Securities other than investments, amounts to 7,347 million euros at December 31, 2009 (5,581 million euros at December 31, 2008) which, together with its unused committed credit lines of 6.5 billion euros, allows the Group to amply meet its repayment obligations over the next 18-24 months. During 2009, improvements in the

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European and United States financial markets made it possible to issue new bonds and obtain new loans with favorable terms and conditions. The higher level of liquidity at year-end 2009 compared to 2008 allows for the coverage of requirements in connection with the repayment of loans in the early months of 2010. During the first two months of 2010, repayments amounting to about 3.0 billion euros (about 1.5 billion euros in the first few months of 2009) have been made.

In February 2010, Telecom Italia S.p.A. issued bonds maturing in 2022 in the principal amount of 1,250 million euros and a new syndicated revolving facility was signed, but not used, for 1,250 million euros for a period of 3 years.

Furthermore, 638 million euros classified in Financial receivables and other current financial assets refers to financial assets of the Group due from HanseNet Telekommuninkation GmbH which was fully repaid upon the sale of the company on February 16, 2010.

In particular:

- ***Cash and cash equivalents*** amounted to 5,504 million euros at December 31, 2009 (5,396 million euros at December 31, 2008). The different forms of investing available cash at December 31, 2009, including euro commercial paper for 20 million euros, can be analyzed as follows:
  - Maturities: investments have a maximum maturity date of three months;
  - Counterpart risk: investments are made with leading banks and financial institutions with high-credit- quality and a rating of at least A;
  - Country risk: investments are mainly made in major European financial markets.
- ***Securities other than investments*** amount to 1,843 million euros (185 million euros at December 31, 2008). Such forms of investment represent alternatives to cash and cash equivalents with the aim of raising the yield. These mainly consist of 900 million euros (nominal amount) in Italian treasury bonds purchased by Telecom Italia S.p.A. (with A ratings by S&P); 200 million euros in a monetary fund, 200 million euros in a government fund, both with AAA ratings by S&P and managed by a leading international credit institution; 112 million euros in bonds issued by counterparts with ratings of at least BBB with different maturities, but all with an active market, that is, readily convertible into cash; 350 million euros of securities invested in a Belgian-registered SICAV with at least an A rating.

* * *

Pursuant to the ongoing investigation of Telecom Italia Sparkle and the related court order served on the company on February 23, 2010, the courts issued a seizure order for 298 million euros on Telecom Italia Sparkle corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation.

As a result, the available liquidity margin as of December 31, 2009, described above, includes amounts seized and guaranteed that may not be available.

Moreover, on April 2, 2010, in addition to the amounts seized, Telecom Italia Sparkle provided two guarantees for a total amount of about 195 million euros on behalf of the courts (for about 72 million euros) and the Financial Administration (for about 123 million euros).

* * *

***Credit ratings***

As of May 6, 2010 the Telecom Italia S.p.A. credit ratings are as follows:

- Moody s: Baa2 , stable outlook (rating confirmed on June 17, 2009);
- Standard and Poor s: BBB , stable outlook (rating confirmed on July 29, 2009);
- Fitch Ratings: BBB , stable outlook (rating confirmed on June 12, 2009).

For a discussion on financial instrument contractual clauses related to credit rating changes, please see the Note Financial liabilities (current and non-current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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***Treasury policies***

The Group employs a variety of instruments to finance its operations and obtain liquidity. The instruments used are bond issues, alongside committed and uncommitted bank lines.

Telecom Italia has a centralized treasury function which operates in the interests of the entire Group:

- allocating liquidity where necessary;
- obtaining excess cash resources from the Group companies;
- guaranteeing an adequate level of liquidity compatible with individual needs;
- acting on behalf of its subsidiaries to negotiate bank lines;
- providing financial consulting services to its subsidiaries.

These activities reduce the Group companies need to seek bank lines and enable those companies to obtain better conditions from the banking system by keeping a constant watch over cash flows and ensuring a more efficient use of liquidity in excess of requirements.

For a further discussion on funding and treasury policies, please see Note Financial Risks Management and Note Cash and Cash equivalents of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

***Off-Balance Sheet Arrangements***

As of December 31, 2009, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

*Guarantees* were provided for a total of 197 million euros, net of back-to-back guarantees received for 158 million euros by Telecom Italia on behalf of associated companies (16 million euros) and other third parties for medium/long-term financial transactions.

Furthermore, the equity interest in Tiglio I (47.80%) was pledged with the lenders of this associated company.

*Purchase and sale commitments* outstanding at December 31, 2009, for 150 million euros and 2 million euros, respectively, refer to obligations to be fulfilled in connection with transactions that are not typically part of the Group s operating cycle . Purchase commitments include obligations for 147 million euros related to the DVB-H contracts entered into by Telecom Italia with the main domestic television operators (particularly the Mediaset group and Sky Italia) to provide the TIM TV service.

The Parent Company, Telecom Italia, issued weak comfort letters, for a total of 34 million euros, on behalf of ETECSA for vendor financing.

For further details please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

***Contractual Obligations and Commitments***

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future based on nominal amounts and carrying values in accordance with IFRS.

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As of December 31, 2009, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

| | Amounts due as of December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | After 2014 | Total |
| | (millions of euros) | | | | | | |
| Bonds | 2,842 | 4,136 | 3,250 | 3,388 | 2,735 | 12,755 | 29,106 |
| Amounts due to banks, other financial payables and liabilities | 2,303 | 618 | 284 | 918 | 2,770 | 3,092 | 9,985 |
| Finance lease liabilities | 233 | 181 | 165 | 138 | 122 | 960 | 1,799 |
| **Total** | **5,378** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **40,890** |
| **Current financial liabilities** | **477** | | | | | | **477** |
| **Total excluding Discontinued operations / Non-current assets held for sale** | **5,855** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **41,367** |
| **Discontinued operations/Non-current assets held for sale**(1) | **628** | | | | | | **628** |
| **Total** | **6,483** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **41,995** |

(1) Representing the Hansenet TeleKommuniKation GmbH financial liabilities towards Telecom Italia Group (607 million euros) and towards others (21 million euros).

For further details please see also Note Derivatives and Note Other information, Operating leases of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### 5.4.3 Capital Expenditures

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units at December 31, 2009.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | 2007 (Restated) |
| | (millions of euros) | | |
| Purchase of tangible assets: | | | |
| Domestic | 1,949 | 2,169 | 2,467 |
| Brazil | 543 | 482 | 388 |
| Media, Olivetti | 29 | 22 | 28 |
| Other Operations and eliminations | 5 | 7 | 28 |
| **Total purchase of tangible assets(1)** | **2,526** | **2,680** | **2,911** |
| **Purchase of intangible assets(2)** | **2,017** | **2,360** | **2,120** |

| | | | |
|---|---|---|---|
| **Total capital expenditures(3)** | **4,543** | **5,040** | **5,031** |

(1) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(2) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(3) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2009, 2008 and 2007, cash flows from operating activities exceeded capital expenditures on an accrual basis. For further details please see 5.4.2 Capital Resources , 5.3.6 Results Of Operations Of Business Units For The Year Ended December 31, 2009 Compared With The Year Ended December 31, 2008 , 5.3.8 Results Of Operations Of Business Units For The Year Ended December 31, 2008 Compared With The Year Ended December 31, 2007 .

The capital expenditures planned for 2010, at Telecom Italia Group level, will be approximately 4.3 billion euros while in 2010-2012 period the capital expenditures will be approximately 12 billion euros.

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The breakdown by core markets is as follows:

- Domestic Business Unit: approximately 3.1 billion euros in 2010 (approximately 9 billion euros in 2010-2012 period); and
- Brazil Business Unit (Tim Brasil): approximately 3 billion reais in 2010 (approximately 8 billion reais in 2010-2012 period).

The Telecom Italia Group expects to fulfill its future commitments for capital expenditures primarily through the use of cash generated from operations.

** *

For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

**5.5 RESEARCH, DEVELOPMENT AND INNOVATION**

Telecom Italia Group s research and development activities are carried out by Telecom Italia Lab ( **TI Lab** ), by the operational and business Units (Networks, Marketing, Information Technology, Security) and by the Group s companies.

TILab is the Technology and Operations Department s structure for overseeing the Group s technological innovation, searching for new technologies and carrying out engineering operations on services and network platforms, through a network of strategic partnerships with the main producers of telecommunications equipment and systems, and with research centres of excellence at the most highly qualified national and international academic institutions. In 2009, three new collaborative projects were begun with three universities (in addition to the thirty already underway since the beginning of 2009) covering research into new technologies, encryption algorithms, services concepts and new paradigms of communication.

Activities to enhance and generate competitive advantage for Telecom Italia Group have been pursued through a strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at the development of the company s assets in patents rights; in this context, during 2009, 20 new applications for patents were registered.

The main activities carried out by TILab are:

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the creation of services in the iPhone environment, in particular, access to information and multimedia content in the area of value added services (VAS). As part of this, version 2.0 of the Virgilio portal was successfully launched, enriched with maps and local content;

- the conducting of experiments with innovative fibre cabling solutions inside buildings (Fibre to the Home FTTH);

- the start of engineering and deployment operations on 200 exchanges of the Kaleidos system for energy efficiency. Installations have been created to test the results of energy efficiency of business customers;

- an innovative solution for air conditioning in the exchange environments called Extraction and Full Free Cooling (EFFC) has been devised and tested in TILab s test plant;

- the start, in partnership with the Miroglio Group, of the first initiative at national level for a fidelity card based on SIM, with Near Field Communication (NFC) proximity technology, which enables the use of the phone owner s SIM as a Fidelity Card;

- the development, in collaboration with Nokia Siemens Networks, of the first intelligent antennas, capable of improving the performance of High Speed Packet Access (HSPA) technology. This equipment makes it possible to optimize the mobile radio base stations, improving the quality of the service offered to customers and, at the same time, guaranteeing less energy consumption and a reduction of electromagnetic fields;

- experiments in the field of LTE (Long Term Evolution) technology, natural evolution in accordance with the 3GPP standard of the HSPA technology currently in use;

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Item 5. Operating And Financial Review And Prospects Research, Development And Innovation

- the release for operation of the converging contact centre platform for business customers;
- the completion of the adjustments of the mobile network to enable the retracing of attempted calls (Frattini decree); and
- the release for operation of the advertising platform on the WAP and MMS services.

In addition, in 2009, TILab made a decisive contribution to the success of two Group initiatives of great social importance:

- the activation at four pediatric hospitals in Italy of Smart Inclusion, a remote teaching solution aimed at child patients; and
- the activation in Rio de Janeiro of the first pilot project of Telemedicine, bringing remote health care to the city s most disadvantaged people.

The research and development activities carried out by the Operational and Business Units of Telecom Italia, carried out internally or sub-contracted to outside suppliers have been directed towards the creation of:

- software products dedicated to the management of new commercial offers and new services for customers (Business Support Systems), to the proper functioning of network support systems (Operational Support Systems), and to Security;
- testing and specific checks for tenders and new network architecture;
- new hardware infrastructure in support of the applications.

The main activities have been:

- the development of a new platform, CRM Business, for the commercial management of the SOHO, SME, Enterprise and Top customers;
- the development of a new platform, single, convergent billing for the administration of invoicing of fixed/mobile services for the consumer customers;
- the evolution of digital platforms in support of the business departments in the implementation of new services for the Consumer, Business & Top customers;
-

the evolution of the hardware infrastructure in accordance with the principles of virtualization (Next Generation Data Centre) and the provision of the technologies in order to develop the commercial offers in the ICT market (for example, Ospit@Virtuale).

For additional details, reference should be made to the Note Other information , of the Notes to the Consolidated Financial Statements included elsewhere herein.

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**5.6 CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The foregoing discussion in Item 5. Operating and Financial Review and Prospects and the following discussion under Item 11. Quantitative and Qualitative Disclosures About Market Risks contain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, should, seeks or anticipate expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forwardlooking information by its nature involves risks and uncertainties, which are outside our control, that could significantly affect expected results.

The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements:

- our ability to successfully implement our strategy over the 2010-2012 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed line and wireless markets;
- the impact of the global recession in the principal markets in which we operate;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing and international mobile roaming;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and BroadBand strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;

- our services are technology-intensive and the development of new technologies could render such services non-competitive;

- the impact of political developments in Italy and other countries in which we operate;

- the impact of fluctuations in currency exchange and interest rates;

- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;

- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil);

- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and

- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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Item 6. Directors, Senior Management and Employees Directors

## Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.1 DIRECTORS

On April 14, 2008 the Shareholders Meeting of the Company elected a new Board of Directors of Telecom Italia. The Shareholders Meeting established the number of Directors at 15 and their term of office would be for three years, that is up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

On April 15, 2008, the Board of Directors elected Gabriele Galateri di Genola and Franco Bernabè, respectively, as Chairman of the Board of Directors and Chief Executive Officer.

On February 27, 2009 Gianni Mion resigned from office and the Board appointed Stefano Cao in his place, effective up to the Shareholders Meeting. The Shareholders Meeting on April 8, 2009 confirmed his appointment, with the same term of office as the term of the other directors and therefore up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

On December 22, 2009, following finalization of the agreement between Telco and Sintonia and the subsequent exit of Sintonia from the Telco shareholding structure, Stefano Cao resigned from the Board of Directors of Telecom Italia with immediate effect.

On April 29, 2010 the Shareholders Meeting approved the proposal by the Board to appoint Mauro Sentinelli as a director of the Company, with the same term of office as the term of the other directors and therefore up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

Consequently, at May 6, 2010 the Board of Directors of Telecom Italia was composed as follows:

| Name | Age | Position | Appointed |
|---|---|---|---|
| Gabriele Galateri di Genola | 63 | Chairman | 2008 |
| Franco Bernabè | 61 | Chief Executive Officer/Director | 2008 |
| César Alierta Izuel | 65 | Director | 2008 |
| Paolo Baratta(1) | 70 | Director | 2008 |
| Tarak Ben Ammar | 60 | Director | 2008 |
| Roland Berger(1) | 72 | Director | 2008 |
| Elio Cosimo Catania(1) | 63 | Director | 2008 |
| Jean Paul Fitoussi(1) | 67 | Director | 2008 |
| Berardino Libonati | 76 | Director | 2008 |
| Julio Linares López | 64 | Director | 2008 |
| Gaetano Micciché | 59 | Director | 2008 |

| | | | |
|---|---|---|---|
| Aldo Minucci | 63 | Director | 2008 |
| Renato Pagliaro | 53 | Director | 2008 |
| Mauro Sentinelli | 63 | Director | 2010 |
| Luigi Zingales(1) | 47 | Director | 2008 |

(1) Independent Directors. For details on the criteria applied to determine independence, see Item 10 Additional Information 10.1 Corporate Governance .

As of May 6, 2010 the Secretary of the Board of Directors was the General Counsel of Telecom Italia, Antonino Cusimano.

In 2009:

- the Board of Directors met seven times, with meetings generally scheduled pursuant to a calendar set forth in advance;

- the Executive Committee (as of December 31, 2009 composed of Gabriele Galateri Chairman, Franco Bernabè, Roland Berger, Elio Cosimo Catania, Julio Linares López , Aldo Minucci, Renato Pagliaro) met four times;

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- the Internal Control and Corporate Governance Committee (as of December 31, 2009 composed of Paolo Baratta Chairman, Roland Berger, Jean Paul Fitoussi and Aldo Minucci) held twelve meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;

- the Nomination and Remuneration Committee (as of December 31, 2009 composed of Elio Cosimo Catania Chairman, Berardino Libonati, Luigi Zingales) met eleven times.

For a detailed description of Telecom Italia s corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see Item 10 Additional Information 10.1. Corporate Governance .

#### 6.1.1 Biographical Data

The following are the selected biographical data of the Directors.

**Gabriele Galateri di Genola:** Gabriele Galateri di Genola was born in Rome in 1947. He was appointed Chairman of Telecom Italia on December 3, 2007 and confirmed in the office on April 15, 2008. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analyses Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office, to Head of International Finance and, ultimately, to Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A. Between April 2003 and June 2007, Mr. Galateri di Genola was Chairman of Mediobanca S.p.A. and up to April 2010 he was Vice Chairman of Assicurazioni Generali S.p.A. He is a non-executive Board member of TIM Participaçoes S.A., Banca Esperia S.p.A., Banca Cassa di Risparmio di Savigliano S.p.A., Banca Carige, Italmobiliare S.p.A. and Accor S.A. Mr. Galateri di Genola is a Vice Chairman of RCS MediaGroup S.p.A. He is a member of the Giunta and of the Consiglio Direttivo of Confindustria; Mr. Galateri has been awarded the Cavaliere del Lavoro honor. He is also Confindustria s Chairman Representative for telecommunications and broadband development. He is member of the General Council and of the Executive Board of Assolombarda.

**Franco Bernabè**: Franco Bernabè was born in Vipiteno/Sterzing (Bozen) in 1948. He was appointed Chief Executive Officer of Telecom Italia on December 3, 2007 and confirmed in the office on April 15, 2008. After earning his degree with honors in Economics and Political Science at the University of Turin in 1973, Mr. Bernabè worked for two years as a post-graduate fellow at the Einaudi Foundation. He began his professional career in 1976 as a Senior Economist at the OECD Department of Economics and Statistics in Paris. In 1978 he joined the Planning Department of FIAT as Chief Economist. In 1983 he joined Eni as an Assistant to the Chairman and became subsequently the Head of Corporate Planning, Financial Control and Corporate Development. From 1992 to 1998 Mr. Bernabè was CEO of Eni. During this two terms, he achieved the turnaround of the company and its successful privatization bringing Eni to be one of the largest oil companies by market capitalization worldwide. In November 1998 he became CEO of Telecom Italia, a position he retained until 1999, when he left following the takeover of Telecom Italia by Olivetti. At the end of 1999 he founded FB Group, an investment company active in the areas of financial advisory, ICT and renewable energy. In 2004, following the merger of the financial advisory activities of FB Group with the Rothschild Group, he was appointed as Vice Chairman of Rothschild Europe. Mr. Bernabè has also served *pro bono* on different public assignments: in 1999 he was appointed by the Italian Prime Minister as a special representative of the Italian Government for the reconstruction of Kosovo; between 2001 and 2003 he was the Chairman of La Biennale di Venezia, and since 2004 he is the Chairman of Mart, the foremost Italian museum of modern art. Mr. Bernabè has served on the Advisory Board of the Council on Foreign Relations, and currently serves on the Board of the Perez Center for Peace. He is a Board member of PetroChina and member of the European Roundtable.

**César Alierta Izuel:** César Alierta Izuel was born in 1945. Mr. Alierta took a degree in law from the University of Zaragoza and earned an MBA at Columbia University (New York). Mr. Alierta has been a Director of Telecom Italia since November 8, 2007. He has been Chairman and Executive Chairman of the Board of Directors of Telefónica, S.A. Mr. Alierta began his career in 1970 as generai manager of the capitai markets division at Banco

Urquijo, S.A. in Madrid, where he worked until 1985. Subsequently, he founded and served as chairman of Beta Capital Sociedad de Valores, S.A. which he combined as from 1991 with his post as chairman of the Spanish Financial Analysts Association (Asociación Espanola de Analistas Financieros). Between 1996 and November 1999, he was director and chairman of Tabacalera S.A. At that time Tabacalera S.A. changed its name into Altadis S.A. (following its merger with the French Group, Seita-Société Nationale D Exploitation Industrielle des Tabacs et Allumettes) and he became director and chairman of Altadis, S.A. He has also been a member of the board of directors of the Madrid Stock Exchange (Bolsa de Madrid), Plus Ultra Compania de Seguros y Reaseguros S.A. and of Iberia S.A.

**Paolo Baratta:** Paolo Baratta was born in Milan in 1939. Mr. Baratta has been a Director of Telecom Italia since May 6, 2004. In 1967 he began doing economic research at the Associazione per lo sviluppo dell industria nel Mezzogiorno (Svimez) in Rome. In 1979 he became a Director of the Istituto per il Credito alle Imprese di Pubblica Utilità (ICIPU) and then Deputy Chairman. From 1980 to 1992 he was Chairman of ICIPU, Consorzio di Credito per le Opere Pubbliche (CREDIOP), Deputy Chairman of the Nuovo Banco Ambrosiano (later Banco Ambrosiano Veneto) and the Italian Bankers Association (ABI). In addition to being a Director of various companies, he was Chairman of the Centro Beneduce per gli studi in Campo Bancario e Assicurativo. In 1993 he became Minister for Privatizations with responsibility for the reorganization of the system of state holdings. In 1993-94 he was Minister for Foreign Trade and Minister for Industry ad interim. In 1995-96 he was Minister for Public Works and minister for the Environment. From 1997 to 2000 he was chairman of Bankers Trust S.p.A. and from 1998 to 2000 Chairman of the Biennale di Venezia. He is a member of the Società Italiana degli Economisti and currently is Chairman of the Fondazione La Biennale di Venezia, Comitato Venezia Internazionale, Accademia Filarmonica Romana, and the Fondazione Lorenzo Valla. Mr Baratta is a Deputy Chairman of the Fondo per l Ambiente Italiano (FAI). He is also a Director of Ferrovie dello Stato S.p.A., Svimez and Fondazione Cini-Venezia.

**Tarak Ben Ammar:** Tarak Ben Ammar was born in Tunis in 1949. Mr. Ben Ammar has been a Director of Telecom Italia since April 14, 2008. He started his career in 1977, as a film producer. In 1990, he formed Quinta Communications, a company used as a vehicle for a number of investments and as a production and distribution company, that was also engaged in trading of audiovisual rights (acquired from U.S. producers and sold to European Broadcasters); in addition Quinta diversified its activities by building up a portfolio of strategic investments in the media services industry. In addition, Mr. Ben Ammar established close working relationships with a selected number of prominent International investors in the media industry. Mr. Ben Ammar was awarded the Legion d Honneur in 1984 for his cultural contributions. Mr. Ben Ammar is Chairman of the Board of Directors of Europa TV S.p.A. and of others companies (such as Prima TV, Promotions et Participations International S.A., Holland Coordinator & Service Company Italia S.p.A., ex Machine S.a.S., Eagle Pictures S.p.A.). He is Chief Executive Officer of Quinta Communications S.A. and of others companies (such as Andromeda Tunisie S.A., Carthago Films S.A.R.L., Teleclair S.A.R.L.); Director of Quinta Communications USA Inc., and Quinta Communications Italia S.r.L., Mediobanca S.p.A., the Weinstein Company, APrime Group S.a.S., LuxVide S.p.A., Holland Coordinator & Service Company B.V., Delta Films Limited and other companies of the Delta Group.

**Roland Berger:** Roland Berger was born in Berlin in 1937. Mr. Berger has been a Director of Telecom Italia since April 14, 2008. He graduated in business at Munich Ludwig Maximilians University. In 1967 Mr. Berger founded Roland Berger & Partners and up until June, 2003 he developed Roland Berger Strategy Consultants. Since July 1, 2003 Mr. Berger has been Chairman of Roland Berger Strategy Consultants. Mr. Berger has been, since 1996, Lecturer and Visiting Professor for General Business Administration and Management Consulting at the Brandenburg Technical University in Cottbus and, since 2000, Honorary Professor for General Business Administration and Management Consulting at the Brandenburg Technical University in Cottbus. He is the author of more than 100 publications on issues of international management and organization, strategic planning and marketing and corporate planning. Mr. Berger has received many public appointments and has been conferred numerous honors. Mr. Berger is Member of the Board of Trustees of the Association for the Promotion of German Science, Essen, the Bavarian Elite Academy Foundation, the Institute for Economic Research at the University of Munich, the Zeppelin University, Friedrichshafen; Board Member of the International Academy of Management, Barcelona, the International Management Institute, Kiev, the Business School Insead, Fontainebleau, the World Association for International German Schools, Berlin. Mr. Berger is Chairman of the Board of Trustees of his private Roland Berger Foundation. The Roland Berger Foundation is committed to protecting human dignity and human rights worldwide, and to facilitating access to high-quality education for talented young people from weaker social classes in Europe. He holds offices in many cultural associations and in international advisory/supervisory boards: in particular, he is Member of various boards of national and international businesses,

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foundations and organizations (Fiat Group, Fresenius SE, Schuler AG, Senator Entertainment AG, Wilhelm von Finck AG Deputy Chairman, Live Holding AG Chairman, Prime Office AG Chairman, WMP EuroCom AG Chairman, Special Purpose Acquisition Company Chairman), Member of the international advisory board of Sony Corporation of Tokio and Blackstone Group of New York.

**Elio Cosimo Catania:** Elio Cosimo Catania was born in Catania in 1946. Mr. Catania has been a Director of Telecom Italia since April 14, 2008. He graduated in Electrical Engineering at Rome University and earned a Master in Management Science at Sloan Management School, MIT, Boston. Elio Cosimo Catania performed a large proportion of his managerial work at IBM, which he joined in 1970. He operated in four continents and held the following posts, among others: President of IBM Latin America, based in New York; Vice President of Marketing for IBM Europe, based in Paris; President and Chief Executive of IBM Italia; President of IBM South Europe. From 2004 to 2006 he has been Chairman and Chief Executive Officer of Ferrovie dello Stato. Mr. Catania is Chairman and Managing Director of ATM Group (Milan Transport Company), Member of the Board of Management of Banca Intesa SanPaolo, Vice Chairman of Assonime (Association of Italian Joint Stock Companies), Vice President of the Council for Relations between Italy and the United States (CRISU), Member of the Committee of Confindustria and was awarded the Cavaliere del Lavoro honor in 2001.

**Jean Paul Fitoussi:** Jean-Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has been a Director of Telecom Italia since May 6, 2004. Mr. Fitoussi is Professor of Economics at the Institut d Études Politiques in Paris, where he has taught since 1982 and whose Scientific Committee he now chairs. He is currently President of the Observatoire Français des Conjonctures Economiques (OFCE), an economic research and forecasting institute. Mr. Fitoussi graduated cum laude in Law and Economics from the University of Strasbourg with a thesis on inflation, equilibrium and unemployment. He began his academic career as a contract professor at the University of Strasbourg. Between 1979 and 1983 he taught at the European University Institute, Florence, and in 1984 was visiting professor at the University of California, Los Angeles. Since 1998 he has been a member of the board of the École Normale Supérieure. In 1997 he became a member of the Prime Minister s Council for Economic Analyses. In 1996 he was named to the Commission Économique de la Nation. He was secretary of the International Economic Association beginning in 1984 and has been an expert for the Economic and Monetary Committee of the European Parliament. Between 1990 and 1993 he was Chairman of the Economic Council of the European Bank for Reconstruction and Development. In the field of publishing, Mr. Fitoussi is managing editor of the Revue et Lettre de L OFCE, member of the Editorial Board of Labour and The International Journal of Development Planning Literature and the scientific committee of International Labour Review and Critique Internationale. His writing appears regularly in newspapers in France and abroad and he is commentator for La Repubblica and Le Monde. Since 2002 he has been Director of the Fondation Nationale des Sciences Politiques. In the field of research, Mr. Fitoussi has concentrated on inflation theory, unemployment, foreign trade and the role of macroeconomic policy. As President of the OFCE and founder of its International Economic Policy Group (of which he is a member), he has made numerous contributions to the current economic policy debate, particularly on the issues of economic integration and transition. Mr. Fitoussi has received the Association Français de Sciences Économiques (French Association for Economic Sciences) Award, and the Rossi Award from the Académie des Sciences Morales et Politiques (Academy of Moral and Political Sciences). He has been awarded various honours including the Honorary Deanship of the Faculty of Economics in Strasbourg, Honoris Causa degree at the Buenos Aires University, and in his own country the decorations of Chevalier de l Ordre National du Mérite (Knight of the National Order of Merit) and Chevalier de la Legion d Honneur (Knight of the Legion of Honour). He is a Member of various boards of national and international businesses, foundations and organizations (member Board of Directors of FNSP and of Banca Sella Holding, member of Executive Committee of the Association Internationale de Sciences Economiques, Chairman of the Commission des Nations-Unies sur la reforme du systeme monetaire financier international).

**Berardino Libonati:** Berardino Libonati was born in Rome in 1934. He has been a Director of Telecom Italia since April 14, 2008. He has been a lawyer since 1961, and Professor of Commercial Law at La Sapienza, the First University of Rome, from 1981 to 2008. He held various positions in legal reviews such as *Rivista del diritto commerciale e del diritto generale delle obbligazioni*, *Concorrenza e Mercato* and *Rivista delle società*. Berardino Libonati was Auditor to ENI S.p.A. from August 1992 to June 1995; chairman of the board of Banco di Sicilia S.p.A. from July 1994 to May 1997; chairman of the board of Finnat Euramerica SIM S.p.A. from May 1995 to May 1997; chairman of the board of Telecom Italia S.p.A. from October 1998 to June 1999; chairman of the board of TIM Telecom Italia Mobile S.p.A. from August 1998 to June 1999; chairman of the board of Nomisma S.p.A. from May 2003 till May 7, 2007; a director of Mediobanca S.p.A. from July 30, 2001 to July 2, 2007; chairman of

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the board of Swiss Re Italia S.p.A. from January 1996 to June 2006; chairman of the board of Alitalia S.p.A. from February 22, 2007 till July 31, 2007; chairman of the board of Banca di Roma S.p.A. from June 28, 2002 till October 4, 2007. He has been chairman of Unidroit Institut pour l Unification du Droit Privé since January 2000. He has been on the board of ESI Edizioni Scientifiche Italiane S.p.A. since January 23, 2003 and has served on the board of directors of Pirelli & C. S.p.A. since April 28, 2005. He has been part of the board of directors of RCS Media Group S.p.A. since April 27, 2006. From August 3, 2007 to April 29, 2009 he was deputy chairman of Unicredit. Berardino Libonati was appointed Chairman of Telecom Italia Media on April 10, 2008.

**Julio Linares López:** Julio Linares López was born in Medina de Pomar (Spain) in 1945. He has been a Director of Telecom Italia since November 8, 2007. Mr. Linares has been a member of the Board of Directors and Chief Operating Officer for Telefónica since December 19, 2007. In May 1970, he joined Telefónica s Research and Development Center, where he held several positions until he was appointed head of the Technology Department. In April 1990, he was appointed General Manager of Telefónica Investigación y Desarrollo, S.A. In December 1994, he became deputy general manager of Marketing and Services Development department in the commercial area and subsequently, deputy general manager far Corporate Marketing. in July 1997, he was appointed chief executive officer of Telefónica Multimedia S.A. and chairman of Telefónica Cable and Producciones Multitemàtícas, S.A. In January 2000, he was appointed executive chairman of Telefónica de Espana, S.A., a position which he held until December 2005, when he was appointed managing director for Coordination, Business Development and Synergies of Telefónica. He is also a member of the board of directors of Telefónica de Espana, S.A.U., Telefónica Móviles Espana, S.A.U. and Telefónica Europe, plc. Mr. Linares holds a degree in telecommunications engineering from the Polytechnic University of Madrid (Universidad Politécnica de Madrid).

**Gaetano Miccichè:** Gaetano Miccichè was born in Palermo in 1950. Mr. Miccichè has been a Director of Telecom Italia since July 24, 2007. He graduated in Law and then obtained a Master in Business Administration with merit at the SDA Bocconi. He began his professional experience in 1971 as Manager for Corporate Clients at Cassa Centrale Risparmio Province Siciliane. In 1989 he was appointed Central Financial Director at Rodriguez S.p.A., world leading company in the high-speed navigation sector. From 1992 to 1995 he was Managing Director and later Liquidating Administrator at Gerolimich Unione Manifatture, Holding Company with stakes in various industrial sectors. In 1996 he became General Manager of Santavaleria S.p.A., industrial Holding Company in chemical and glass sectors. From 1997 to 2002 he was Chief Executive Officer and General Manager of Olcese S.p.A. Since 2002 he has been in Intesa Sanpaolo S.p.A. as Head of Corporate & Investment Banking Division. Since 2007 Mr. Miccichè has been Chief Executive Officer of Banca IMI. He is also Member of the Board of Directors of Alitalia Compagnia Aerea Italiana S.p.A., of Nuovo Trasporto Viaggiatori N.T.V. S.p.A. and of Intesa Sanpaolo Group Services S.C.p.A.

**Aldo Minucci:** Aldo Minucci was born in Reggio Calabria in 1946. Mr. Minucci has been a Director of Telecom Italia since April 16, 2007. After graduating in Law, in 1972 he was employed by Assicurazioni Generali S.p.A., working in the Tax Consulting Service, for which he became Manager in 1983. In 1993 he was appointed Central Executive Officer with responsibility for the Administration and Tax Coordination Service, and supervision of the Tax Consultancy Service. In 1995 he took on the role of Deputy General Manager for Technical-Commercial Coordination for the Insurance Companies in Italy, and he is Supervisor of the Group s Internal Audit Service. Mr. Minucci is Director of Banca Generali S.p.A, AC.E.GA.S. S.p.A., Intesa Previdenza SIM S.p.A., Intesa Vita S.p.A., Gemina S.p.A., Toro S.p.A., INA Assitalia S.p.A., FATA Vita S.p.A., FATA Assicurazioni Danni S.p.A. and ADR- Aeroporti di Roma S.p.A. He is also Chairman of GENERTEL S.p.A. and Telco S.p.A.

**Renato Pagliaro:** Renato Pagliaro was born in Milan in 1957. Mr. Pagliaro has been a Director of Telecom Italia since May 6, 2004. A registered auditor, with a Degree in Corporate Economics from Bocconi University, he joined Mediobanca Banca di Credito Finanziario S.p.A. in 1981, where he has held positions of increasing responsibility. In April 2003 he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A.; in July 2007, he was appointed Chairman of the Management Board of Mediobanca. Mr. Pagliaro is a Managing Director and member of Board of Directors of Mediobanca S.p.A. He is a Deputy Chairman of RCS Mediagroup S.p.A., Director of Pirelli & C. S.p.A. and Burgo Group S.p.A. He is also a Director of SelmaBipiemme Leasing S.p.A. and Cofactor S.p.A. Since 1993 he has been a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l.

**Mauro Sentinelli:** Mauro Sentinelli was born in Rome in 1947. Mr. Sentinelli was appointed a Director of Telecom Italia on April 29, 2010. An electronic engineer with a masters degree in telecommunications,

Mr. Sentinelli joined SIP (presently Telecom Italia) in 1974, where he specialized in the mobile business. In 1991 he became Director of Marketing and Planning in the Mobile Division of the company and in 1994 he was appointed Deputy Managing Director of Telecom Italia s Mobile Division (to become a separate company in 1995 as a result of the Tim de-merger). In May 1997 he left TIM for an experience in the U.S. and in July 1999 he returned to TIM as Group Managing Director. In April 2002 he became a director of TIM, finally leaving the company in January 2005. He was Deputy Chairman of the GSM Association from 2003 to 2008, board member of Onda Comunication (Italy) and Airtel (India) up to 2010. Presently Mr. Sentinelli is a Member of the Board of GSMA Ltd, the industrial branch of the GSM Association.

**Luigi Zingales:** Luigi Zingales was born in Padua in 1963. Mr. Zingales has been a Director of Telecom Italia since April 16, 2007. Luigi Zingales is lecturer of Robert C. McCormack Professor of Entrepreneurship and Finance at the Graduate School of Business of the University of Chicago, where he has been a member of the faculty since 1992. In the academic year 2005-2006 he held the Taussig Research Professorship at Harvard University. He is a faculty research fellow of the NBER, a research fellow of the Centre for Economic Policy Research (CEPR), a member of the Committee on Capital Market Regulation, and of the United Nation Advisory Board on Microfinance. In 2003 he won the Bernacer Prize for the best young European financial economist. From 2005 to 2009 he was a director of the American Finance Association. His research interests span from corporate governance to financial development, from political economy to the economic effects of culture. He has published extensively in the major economics and financial journals. He is an editorialist for Il Sole 24 ore (the leading Italian economic newspaper) and for L Espresso.

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Item 6. Directors, Senior Management and Employees Executive Officers

## 6.2 EXECUTIVE OFFICERS

As of May 6, 2010, the executive officers of Telecom Italia and their respective positions were as follows:

| Name | Age | Position | Appointed |
|---|---|---|---|
| **Directors:** | | | |
| Gabriele Galateri di Genola | 63 | Chairman(1) | 2008 |
| Franco Bernabè | 61 | Chief Executive Officer(1) | 2008 |
| **Managers:** | | | |
| Oscar Cicchetti | 54 | Head of Technology & Operations | 2009 |
| Stefano Ciurli | 48 | Head of Purchasing | 2009 |
| Antonino Cusimano | 45 | Head of Corporate Legal Affairs and a.i. Head of Legal Affairs | 2008 |
| Luca Luciani | 42 | Diretor Chairman of Tim Brasil | 2009 |
| Andrea Mangoni | 46 | Chief Financial Officer;<br>a.i. Head of International Business and Chairman of Telecom Italia Sparkle S.p.A. | 2009 |
| Antonio Migliardi | 51 | Head of Human Resources and Organization | 2008 |
| Marco Patuano | 45 | Head of Domestic Market Operations | 2009 |

(1) Appointed by the Board of Directors on April 15, 2008.

The following are the selected biographical data of the executive officers, other than Directors (for the biographical data of Mr. Gabriele Galateri di Genola and Mr. Franco Bernabè, please see above under 6.1 Directors ):

**Oscar Cicchetti**: Mr. Cicchetti was born in Pizzoli (L Aquila), in 1951. From January 14 to June 4, 2008 he was Head of Telecom Italia Business Strategies & International Development; from March 10 to June 4, 2008 he was Head of Domestic Fixed Services and from June 12, 2008 to November 6 2009 he was Head of Domestic Market Operations; he is currently Head of Technology & Operations. Mr. Cicchetti began his career in 1978 as an analyst at the Datamat software house. He joined SIP in 1979 to manage Network and Installations in the Ascoli Piceno area until 1984, and then he worked as a Market Manager in Ancona and Perugia. Between 1987 and 1993, he was in charge of Process Organization at the HR Management office. In 1993, Mr. Cicchetti transferred to the Azienda di Stato dei Servizi Telefonici company (later Iritel). He stayed here until 1994, as Head of Organization and Training. From 1994 to 1997, he was Head of Staff for the General Manager of Business Systems, before taking on this same role for the CEO of STET/Telecom Italia. Between 1997 and 2000, he covered a number of managerial roles at the Telecom Italia Group, including Central Deputy Manager and Head of the International Business Unit. This period culminated with appointments as Head of Strategic Planning and Head of the Network Division. After working as a freelance consultant in 2001 and 2002 for Wind and Morgan Stanley Private Equity, in 2003 he became CEO of business data services specialist Netscalibur S.p.A, a job he retained until 2006. He was appointed CEO of Infracom Network Application S.p.A. in 2007, prior to making his return to the Telecom Italia Group. Mr. Cicchetti is also Chairman of Matrix S.p.A. and member of the Board of Directors of Olivetti S.p.A. and Fondazione Telecom Italia.

**Stefano Ciurli**: Mr. Ciurli was born in Rome, in 1962. He graduated in Economics at LUISS University in 1987. He was appointed Head of the Purchasing department of Telecom Italia on March 16, 2009. He began his professional career in 1987 in SIP, over 20 years in Telecom Italia with increasing responsibilities mainly within the Finance Administration and Control department. From July 2003 to December 2005 he

served as Chief Financial Officer of TIM. In 2006 he was in charge of the International Support area with the responsibility on the activities of business development and plug&play opportunities at international level. From August 2008 to March 2009, he served as head of the Planning & Control department of Telecom Italia.

**Antonino Cusimano**: Mr. Cusimano was born in Palermo, in 1964. He was appointed General Counsel and Head of Telecom Italia Corporate and Legal Affairs on September 15, 2008, Secretary to the Board of Directors on September 25 2008 and Telecom Italia s Head of Domestic Legal Affairs a.i. on December 23, 2008.

Mr. Cusimano was an associate at Hill Taylor Dickinson, London, prior to joining the Pittsburgh based company, PPG Industries Inc. in 1994. He was appointed General Counsel of PPG Industries Europe in 2000, with responsibility for a wide range of legal and business issues. From 2003 to 2005 he served as General Manager, Environmental, Health and Security Protection of PPG Industries Europe and between May and December 2005, he held the position of Corporate Counsel.

Mr. Cusimano joined General Electric, Oil & Gas based in Florence serving as Senior Counsel Global Services and Transactions. During his time at GE, he was a Director and Vice President at Nuovo Pignone Holding S.p.A. and Nuovo Pignone S.p.A.

**Luca Luciani**: Mr. Luciani was born in Padua, in 1967. He was appointed CEO of TIM Brasil on January 19, 2009. Mr. Luciani began his career at Procter & Gamble in 1990 in Italy and Brussels. In 1994, he moved to Bain Cuneo e Associati, where he was a consultant to domestic and international clients. He joined ENEL in 1997 as Group Controller. He first joined the Telecom Italia Group in 1999 in this same role. Since 2001, he has held a number of posts, notably CFO at TIM, Assistant to the Chairman, TIM Marketing, and Network and IT (TIM). He was appointed TIM Commercial Manager in 2005. After the recent Telecom Italia Group restructuring including the amalgamation of fixed-line and mobile operations, in 2006 Mr. Luciani was appointed Group Sales & Customer Care Manager. From January 2007 to February 2009 he was General Manager of Domestic Mobile Services.

**Andrea Mangoni**: Mr. Mangoni was born in Terni, in 1963. He graduated at the University of Rome in 1988 with a thesis on valuation and private financing of investments in public infrastructures. He was appointed head of Administration, Finance and Control at the Company of the Group since November 2009. Mr. Mangoni joined the Telecom Italia Group on July 1, 2009, as Chairman of Telecom Italia Sparkle and as Director of International Business at Telecom Italia S.p.A. From 1996 to March 2009 worked in Acea, where he was appointed Chief Executive Officer in November 2003; from March 2003 to November 2003 he was General Manger of Acea; from June 2001 to February 2003 was Chief Financial Officer, responsible of strategies, finance, budget, economic planning and control, investor relations of Acea; in 2002 he was appointed common representative of the Joint Venture among Acea, Electrabel and Energia Italiana which brought to the acquisition of Interpower, the third generation company sold by Enel; from January 2000 to May 2001 he was Strategic Planning Director of Acea; from January 1998 to December 1999 he worked as manager of the Finance Department of Acea and he was responsible of strategic planning; from 1996 to 1997 he was President Assistant, responsible for the transformation process of Acea from municipal company into share capital company. Mr. Mangoni worked for InterAmerican Development Bank (IDB).

**Antonio Migliardi**: Mr. Migliardi was born in Reggio Calabria in 1958. On May 1, 2008, he became Head of Human Resources, Organization and Industrial Relations of Telecom Italia. After graduating in Law, Mr. Migliardi began his career at SIP (later Telecom Italia) with responsibility for Human Resources. At first, he was Responsible for Human Resources and Industrial Relations Regional Dept., then he assumed a central responsibility in the Industrial Relations Sector. From 1998 to 2004 he was in charge of the Development and Organization Dept. in FS Group. Reporting to the Chief Executive Officer and the Managing Director of the Group, he was appointed to head the project and implement the reorganization of the Italian railways. He was appointed an internal member of Trenitalia s (the most important subsidiary of F.S. Group, constituted in 2000) board. In charge of Trenitalia s System Dept. (logistics & maintenance, Information and Communication Technology and Total Quality Management), he reported to the Chief Executive Officer, mission and corporate goals: obtaining the alignment of these systems to the new competitive scenario in which Trenitalia had to act in the coming years. As head of Total Quality Management, he was also member of the board of Qualital (an Italian consortium for the Engineering of Total Quality). From 2004 to 2006 he was with Alitalia, reporting to the Chief Executive Officer, as Chief Production Officer (Flight Ops, Ground Ops, Maintenance etc.) and Accountable Manager according to the international regulations (JAR Ops) until the recapitalization of the Company. From 2006 to 2008 he was in charge of Human Resources and Organization Dept. of Vitrociset. Mr. Migliardi is also member of the Board of Directors of Telecontact S.p.A.

**Marco Patuano**: Mr. Patuano was born in Alessandria in 1964. Mr. Patuano was appointed Telecom Italia s Chief Financial Officer on August 8, 2008. He began his career at SIP Central Management in May 1990. From 1990 to 2002, he worked in various departments at

Administration, Finance and Control. He was promoted through the ranks at Financial Management between 1998 and 2002. In April 2003, he became CFO at Tim Brasil and Telecom Italia America Latina S.A., a Group subsidiary based in Brazil. Between 2004 and 2006, he served as

General Manager at Telecom Italia Latam. In 2006, he moved to Telecom Argentina as Head of Fixed-Line Telephony. He served as General Manager, Operations for Telecom Argentina between May 2007 and July 2008. He was appointed a director at Telecom Italia Media and the Italtel group in September 2008. Mr. Patuano is also member of the Board and Executive Committee at Italtel S.p.A.

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### 6.3 BOARD OF AUDITORS

The following table lists the members of the Telecom Italia Board of Statutory Auditors, including the Alternate Auditors, with their respective positions and years of appointment. The current Telecom Italia Board of Statutory Auditors was appointed in the shareholders meeting held on April 8, 2009, and will remain in office until approval of the 2011 annual financial statements.

| Name | Position | Appointed |
|---|---|---|
| Enrico Maria Bignami(1) | Chairman | 2009 |
| Gianluca Ponzellini | Acting Auditor | 2009 |
| Lorenzo Pozza(1) | Acting Auditor | 2009 |
| Salvatore Spiniello | Acting Auditor | 2009 |
| Ferdinando Superti Furga | Acting Auditor | 2009 |
| Silvano Corbella(1) | Alternate Auditor | 2009 |
| Maurizio Lauri(1) | Alternate Auditor | 2009 |
| Vittorio Giacomo Mariani | Alternate Auditor | 2009 |
| Ugo Rock | Alternate Auditor | 2009 |

(1) Elected by minority shareholders.

The positions held by the members of the Board of Statutory Auditors in other listed companies are shown below:

| | |
|---|---|
| Enrico Maria Bignami | Chairman of the Board of Auditors of Biancamano S.p.A. |
| Gianluca Ponzellini | Chairman of the Board of Auditors of Banca IMI S.p.A. and De Longhi S.p.A.; member of the Supervisory Board of Intesa Sanpaolo S.p.A. |
| Lorenzo Pozza | Chairman of the Board of Auditors of Gas Plus S.p.A.; member of the Board of Auditors of Terna S.p.A. |
| Salvatore Spiniello | Chairman of the Board of Auditors of Telecom Italia Media S.p.A.; Director of Fondiaria SAI S.p.A. |
| Ferdinando Superti Furga | Chairman of the Board of Auditors of Arnoldo Mondadori S.p.A. and Saras S.p.A.; independent Director of Parmalat S.p.A. |

For a detailed description of Telecom Italia s corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company), see Item 10 Additional Information 10.1 Corporate Governance .

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**6.4 EXTERNAL AUDITORS**

The audit of issuers and their groups is governed by the Legislative Decree No. 58/1998 (the Consolidated Law on Finance), as subsequently amended by the Legislative Decree No. 39 of January 27, 2010 (implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts). In particular, such Legislative Decree fixed the duration of audit engagements at nine years and prohibited the renewal or the re-engagement unless at least three years have elapsed from the date of termination of previous assignment.

According to the Italian law and regulations, the three-year period 2007-2009 (after a first appointment for the years 2001, 2002 and 2003 and a second appointment for the years 2004, 2005 and 2006) audit engagement conferred to Reconta Ernst & Young S.p.A. by the Telecom Italia Shareholders Meeting on April 16, 2007 came to an end with the issuance by Reconta Ernst & Young S.p.A. of its audit report on the financial statements of Telecom Italia for the year ended December 31, 2009. As described above, such engagement was no longer renewable to Reconta Ernst & Young S.p.A. and as a result of this the Shareholders Meeting held on April 29, 2010, resolved to appoint PricewaterhouseCoopers S.p.A. as Telecom Italia s primary independent auditors for the nine-year period 2010-2018. For US purposes the audit engagement conferred to Reconta Ernst & Young is coming to an end concurrently with the filing with the SEC of this Annual Report.

Italian audit principles require that, in cases of corporate groups, the audit firm of Telecom Italia should carry out the audit of the group s most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation on the financial statements in their entirety. In addition, the specific new guidelines for the Appointment of Auditors set forth by Telecom Italia (the Group Procedure for the Appointment of External Auditors was revised last year in view of the engagement of the audit firm for the 2010-2018) provides that the auditor of Telecom Italia is the principal auditor of the entire group headed by Telecom Italia and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

As a result, the PricewaterhouseCoopers audit network after the filing with the SEC of this Annual Report will be the principal audit firm for the Telecom Italia Group, also for US purposes.

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## 6.5 EMPLOYEES

### 6.5.1 Employees and Changes in the Telecom Italia Group

The number of Group employees at December 31, 2009 and 2008 was the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes |
| | | (units) | |
| Employees Italy | 60,829 | 63,521 | (2,692) |
| Employees Foreign | 10,499 | 11,017 | (518) |
| **Total Employees at payroll** | **71,328** | **74,538** | **(3,210)** |
| Employees with temporary work contracts | 56 | 782 | (726) |
| Employees allocated to non-current assets held for sale | 2,205 | 2,505 | (300) |
| **Total Employees** | **73,589** | **77,825** | **(4,236)** |

Excluding employees included in Non-current assets held for sale (Hansenet) and personnel with temporary work contracts, the Group s workforce has been reduced by 3,210 units compared to December 31, 2008, due to:

- the exclusion of Telecom Italia Media News from the scope of consolidation (105 units);
- the inclusion of Intelig Telecommunicações Ltda in the scope of consolidation (580 units);
- workforce turnover down by 3,685 units, as specified for individual Business Units:

| | Hirings | Terminations | Changes |
|---|---|---|---|
| | | (units) | |
| Domestic | 630 | 3,082 | (2,452) |
| Brazil | 2,024 | 3,109 | (1,085) |
| Media, Olivetti, Other Operations | 255 | 403 | (148) |
| **Turn over** | **2,909** | **6,594** | **(3,685)** |

*Telecom Italia S.p.A.*

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes |
| | | (units) | |
| Personnel on payroll | 54,236 | 56,650 | (2,414) |
| Employees with temporary work contracts | | 635 | (635) |
| **Total** | **54,236** | **57,285** | **(3,049)** |

At December 31, 2009, Telecom Italia personnel on payroll was 54,236 units.

Compared to December 31, 2008, an overall reduction of 2,414 units was recorded, due to:

- the entrance of 61 units from other Group Companies;
- workforce turnover down by 2,475 units, as specified:

| | Hirings | Terminations | Changes |
|---|---|---|---|
| | | (units) | |
| **Telecom Italia S.p.A. Turn over** | **384** | **2,859** | **(2,475)** |

*Tim Brasil group*

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | Changes |
| | | (units) | |
| **Tim Brasil group Total** | **9,783** | **10,285** | **(502)** |

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The employees of Tim Brasil Group as of December 31, 2009, was equal to 9,783 units.

Compared to December 31, 2008, an overall reduction of 502 units was recorded, due to:

- the entrance of 3 units from other Group Companies;
- the inclusion of Intelig Telecomunicações Ltda in the scope of consolidation (580 units);
- workforce turnover down by 1,085 units, as specified:

| | Hirings | Terminations (units) | Changes |
|---|---|---|---|
| **Tim Brasil group Turn over** | **2,024** | **3,109** | **(1,085)** |

### 6.5.2 Industrial Relations

On December 31, 2008, the Collective National Work Contract (CCNL) for employees in the telecommunications sector expired. Negotiations for its renewal begun in January, 2009, under coordination of the trade association Asstel, led to the signing, on October 23, 2009 of the new CCNL for the years 2009-2011. Specifically, the Contract provides for:

- the adjustment of minimum salaries on the basis of the Harmonised Consumer Price Index;
- the updating of all the regulatory schemes regarding the labor market, incorporating the latest legislative amendments;
- the institution of a form of supplementary health assistance for all workers of the sector;
- the increase in leave days for student-workers;
- the establishment of a bilateral agency for sector training which will organise courses on environment and safety at work, (as required by law 231/2001), regulations on privacy, basic computing and basic language training, work relations, CCNL and social security.

In addition, the Contract has introduced a multifaceted system of relations between companies and unions, according to European Community guidelines. The Observatory on Remote Control and the National Forum, a joint employer unions body, have been established as the leading centres of analysis, verification and discussion between the parties on the issues of financially dynamic, technological development in the sector, the evolution of legislative activities, relations with consumer associations, social corporate responsibility, the labour market, equal opportunities and safety at work. The new system of industrial relations will further encourage the dialogue between Telecom Italia trade union organizations and the stakeholders.

In January and February 2009, with successive in-depth meetings, the Company explained to the trade unions the organizational considerations in the Strategic Plan for 2009-2011. In the context of the subsequent changes to the workforce, a collective dismissal procedure, so called mobility was launched on May 25 under Law 223/91 for 470 workers operating in the Directory Assistance sector (Service 1254, Data Lists Assurance, Exchanges, International Work Services Centre, Territorial Support).

On July 21, 2009 the Company renounced the recourse to mobility and stipulated a contract of the defensive type, with the trade unions, at the Ministry of Labor, regarding the workers concerned. This Contract provides for the reduction of the working hours to avoid, wholly or in part, the reduction or the mandatory redundancy of personnel.

On February 5, 2009, specific agreements were signed with SLC-CGIL, FISTER-CISL and UILCOM-UIL (the main industry unions) on the election procedures for the Unitary Union Representative Body (RSU) and Health and Safety representatives (RSL), in compliance with union standards and on the Joint Health and Safety Committees. In order to maintain participation as the preferred instrument for verification, analysis and discussion, the Joint Health and Safety Committees are composed of an equal number of company and union members. Their task is to adopt initiatives aimed at the protection of the health of the workers, to examine the increasing number of accidents and, where necessary, propose improvements to training and information for workers and the RLS.

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On October 12, 2009 the Company and the unions agreed on 2009-2010 collective holidays attributed to the relevant company divisions.

According to the Master Agreement between the Company and the trade unions on May 14, 2008, on Performance-Related Bonuses, a specific agreement was signed on May 5, 2009 with SLC-CGIL, FISTEL-CISL, UILCOM-UIL, the National RSU and UGL Telecommunications Coordination, which defined the organizational macro-fields and the parameters of quality/productivity required for Performance-Related Bonuses 2009-2011. The agreement allows for a more direct correlation with the results of the business of specific groups of workers, encouraging the involvement of the workers and a greater sense of belonging to the business.

As envisaged by the CCNL and the Protocols of Industrial Relations of the Company and the trade unions, during 2009 numerous meetings were held at the national level on many issues, among them: the contracts signed by the Company with suppliers and partners, the new reference model for company training, the reorganization of important company structures such as the Technology & Operations Department and the Security Department and the process of professional mobility of the staff areas towards operational structures.

The industrial relations activities conducted by TI Media included:

- on February 2, 2009, an understanding was reached with the journalists trade unions with regard to the collective dismissal of 25 journalists, which occurred in September 2008. The agreement, reached through the regulatory schemes of the solidarity contract, revokes the procedure of collective dismissal, lasts from March 1, 2009, to February 28, 2011, and provides for the reduction of working hours and pay by 16%. The reduction in pay will be compensated, for 50%, by a specific indemnity distributed by the National Institute for the Welfare of Italian Journalists (INPGI) which also provides for the accreditation of the tax credits due;

- on October 15, 2009, an agreement was signed with the national and territorial RSUs of TI Media, UILCOM UIL and FISTEL to raise maximum term of the fixed-term contract from 36 to 63 months. The agreement has, moreover, regulated certain aspects on matters of hiring on fixed-term contracts.

Finally, as regards Telecom Italia Sparkle S.p.A., on October 29, 2009 the new company organizational model was presented to the trade unions and the agreement on collective holidays for 2010 was signed.

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Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Auditors

## 6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS

### 6.6.1 Compensation of Directors

The General Shareholders Meeting held on April 14, 2008, set the maximum total annual remuneration of the newly appointed Board of Directors (to remain in office for a three-year term, until the approval of the 2011 financial statements), according to article 2389, first paragraph, of the Italian Civil Code up to 2.2 million euros, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

According to the resolution adopted by the Board on April 15, 2008, the above mentioned overall amount for 2009 was distributed as follows:

- 110,000 euros to be paid to each director in office;
- an additional 35,000 euros to be paid to each member of the Executive Committee;
- an additional 45,000 euros to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional 20,000 euros to be paid to each member of the Nomination and Remuneration Committee;
- an additional 20,000 euros to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001 (see Item 10 Additional Information 10.1 Corporate Governance ).

The total compensation paid by Telecom Italia and by the Telecom Italia Group subsidiaries in 2009 to the members of the Board of Directors of Telecom Italia was 7,170 million euros.

In addition, according to a further resolution adopted by the Board, the Chairman and the Chief Executive Officer have been awarded a fixed component of compensation for the position on top of that paid under Article 2389, first paragraph, of the Civil Code of respectively 1.3 million euros and 1.4 million euros. In addition, the compensation package provides (i) for the Chairman, the use of a Company flat; (ii) for the Chief Executive Director, payments into a welfare plan of an amount equal to 10% of his fixed salary; (iii) for both of them, personal health coverage and insurance against accidents at work and non-professional accidents, life insurance and permanent disability insurance due to illness; (iv) for both of them, a sum equal to the amount required in order to pay taxes on this type of taxable benefits.

The Chief Executive Officer is also entitled to a short-term variable component of compensation (in the amount of between 50% and 200% of his fixed salary) based on criteria set forth annually by the Board, on the basis of a proposal by the Nomination and Compensation Committee and with the approval of the Board of Statutory Auditors. The indicators for 2009 were as follows:

- Value Creation, expressed by the Net Income (weight: 20%);

- Cash Improvement, assessed in terms of the ratio between Net Debt and EBITDA (weight: 15%);

- Quality, in terms of the Customer Satisfaction Index (weight: 15%);

- Focus on the operational component, either as the ratio between cash costs and revenues (weight: 15%), or in terms of the revenue from specifically identified innovative services (weight: 15%).

The targets for the above parameters were set in accordance with the 2009 budget and allow for a negative deviation down to a minimum threshold value and a maximum payout for the achievement of predetermined positive deviations. Deviations were differentiated according to the relevant indicators and intermediate performance results were to be measured according to a linear function. In addition to the quantitative parameters (the total weight of which was 80%) there was a qualitative valuation criteria (weight: 20%) consisting of the discretionary judgement of the Board of Directors. The final pay-out of the short term compensation of the Chief Executive Officer for the year 2009 was 70% of his fixed compensation, that is 980,000 euros.

A corresponding structure of performance indicators is in place for the 2010 short-term variable component of compensation of the Chief Executive Officer. The parameters are:

- Net Income (weight: 20%),

- Net Financial Position (weight: 15%),

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- organic EBITDA (weight: 15%),
- Customer Satisfaction Index (weight: 15%);
- Total Domestic Revenues (weight: 15%); and
- Qualitative ex post valuation by the Board (weight: 20%).

According to the resolutions of the Board, if the appointment of either the Chairman or the CEO is terminated before the end of the mandate established by the shareholders meeting (a three year term of office, up to the approval of the 2010 accounts) (i) for objective reasons (such as the merger of the Company or the termination of the entire Board of Directors pursuant to Article 9.12 of the bylaws), (ii) at the initiative of the Company (except for good cause) or (iii) at the initiative of the interested party for good cause (e.g. change in the position, especially with reference to the delegated powers, significant changes in the composition of the reference shareholders):

- the Chairman is entitled to the fixed compensation that would be due to him from the termination of the relationship to the end of his term of office as a director, supplemented by an indemnity equal to a year s compensation;
- the Chief Executive Officer is entitled to the compensation that would be due to him from the termination of the relationship to the end of his term of office as a director (including the variable component calculated as the average of the compensation already received), supplemented by a indemnity corresponding to a year s compensation calculated as above.

The following table lists the Directors who served during 2009 and their respective compensation as of December 31, 2009. The compensation relates only to the period of 2009 in which they served as set forth below:

| Individuals | Description of the position | | Compensation | | | |
|---|---|---|---|---|---|---|
| Name | Position held | Period during which position was held | Compensation base | Non cash benefits | Bonuses and other incentives | Other Compensations |
| | | | (thousands of euros) | | | |
| **BOARD OF DIRECTORS** | | | | | | |
| Gabriele GALATERI DI GENOLA | Chairman | 1/1-12/31/2009 | 1,599(1) | 189(2) | | (3) |
| Franco BERNABÈ | Chief Executive Officer | 1/1- 12/31/2009 | 1,784(4) | 296(2) | 1,348(5) | |
| César ALIERTA IZUEL | Director | 1/1- 12/31/2009 | 110(6) | | | |
| Paolo BARATTA | Director | 1/1- 12/31/2009 | 175(7) | | | |
| Tarak BEN AMMAR | Director | 1/1- 12/31/2009 | 110 | | | |
| Roland BERGER | Director | 1/1- 12/31/2009 | 190(8) | | | |
| Stefano CAO | Director | 2/27- 12/22/2009 | 115(9) | | | |
| Elio Cosimo CATANIA | Director | 1/1- 12/31/2009 | 165(10) | | | |
| Jean Paul FITOUSSI | Director | 1/1- 12/31/2009 | 155(11) | | | |

| | | | | |
|---|---|---|---|---|
| Berardino LIBONATI | Director | 1/1- 12/31/2009 | 130(12) | 60(13) |
| Julio LINARES LÓPEZ | Director | 1/1- 12/31/2009 | 145(14) | |
| Gaetano MICCICHÉ | Director | 1/1- 12/31/2009 | 110(15) | |
| Aldo MINUCCI | Director | 1/1- 12/31/2009 | 190(8) | |
| Gianni MION | Director | 1/1- 2/27/2009 | 24(16) | |
| Renato PAGLIARO | Director | 1/1-12/31/2009 | 145(17) | |
| Luigi ZINGALES | Director | 1/1-12/31/2009 | 130(12) | |

(1) The amount includes: (i) remuneration ex article 2389 first and third paragraph of the Italian Civil Code, including remuneration paid to compensate for the taxes applied to taxed benefits; (ii) remuneration due as member of the Executive Committee.

(2) The conventional value of cars, housing, insurance policies and supplementary pension, where applicable.

(3) Mr. Galateri does not receive an emolument for the office of chairman of the indirectly held subsidiary Tim Partecipações.

(4) The amount includes: (i) remuneration ex article 2389 first and third paragraph of the Italian Civil Code, (fixed component), including remuneration paid to compensate for the taxes applied to taxed benefits i; (ii) remuneration due as member of the Executive Committee.

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(5) A short-term variable component of remuneration (MBO) paid in 2009 linked to financial results and to specific management objectives reached in the prior year. The incentive had a value of between 50% and 200% of fixed remuneration which varies according to the achievement of predetermined objectives.

(6) The remuneration is not received by the individual but paid over to Telefónica S.A.

(7) The amount includes remuneration paid as chairman of the Committee for Internal Control and Corporate Governance, and member of the Supervisory Panel under Legislative Decree 231/2001.

(8) The amount includes remuneration paid as a member of the Executive Committee and as member of the Committee for Internal Control and Corporate Governance.

(9) The amount, not received but paid over to Sintonia S.A., includes remuneration as a member of the Executive Committee.

(10) The amount includes remuneration paid as a member of the Executive Committee and as member of the Remuneration Committee.

(11) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance.

(12) The amount includes remuneration paid as a member of the Remuneration Committee.

(13) Remuneration due for the office of chairman of the board of directors of the listed subsidiary Telecom Italia Media S.p.A.

(14) The amount, not received but paid over to Telefónica S.A., includes remuneration paid as a member of the Executive Committee.

(15) The amount is not received by the individual but paid over to Banca Intesa Sanpaolo.

(16) The amount, not received but paid over to Edizione Holding S.p.A., includes remuneration as a member of the Executive Committee.

(17) The amount, not received but paid over to Mediobanca S.p.A., includes remuneration as a member of the Executive Committee.

***

Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

The following table have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

| | | Options held at the beginning of 2009 | | | Options granted during 2009 | | | Options exercised during 2009 | | | Options expired or forfeited in 2009 | Options held at the end of 2009 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Post held | Number of Equivalent options(*) | Average exercise price(**) | Average expiration date | Number of Equivalent options(*) | Average exercise price(**) | Average expiration date | Number of Equivalent options(*) | Average exercise price(**) | Average market price during year | Number of Equivalent options | Number of Equivalent options (*) (11)= | Average exercise price (**) | Average expiration date |
| (A) | (B) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (1)+(4)-(7)-(10) | (12) | (13) |
| Gabriele Galateri di Genola | Chairman | 3,000,000(1) | 1.95 | 2014 | | | | | | | | 3,000,000 | 1.95 | 2014 |
| Franco Bernabè | Chief Executive Officer | 8,400,000(1) | 1.95 | 2014 | | | | | | | | 8,400,000 | 1.95 | 2014 |

(*) In order to render the representation of the options homogeneous with that of the underlying subscribable or purchasable shares and also facilitate their measurement based on the relevant exercise prices, Telecom Italia S.p.A. has used the concept of equivalent options . This refers to a quantity of options equal to the number of ordinary shares actually subscribable/purchasable. In this manner, the weighted average market prices and the exercise prices indicated are consistent and directly comparable among each other.

(**) The average exercise price means the average subscription or purchase price of the shares that comes from exercising the options.

(1) Stock Option Plan TOP 2008: each option corresponds to the purchase of 1 Telecom Italia ordinary share (1 equivalent option).

For further details, please see Note Stock option and performance share granting plans of the Telecom Italia Group of the Notes to the Consolidated Financial Statements, included elsewhere herein.

### 6.6.2 Compensation of Executive Officers

The total compensation paid by the Company or by any of the Company s subsidiaries in 2009 to the Company s executive officers (including the Chairman of the Board and the CEO) was 11,750 thousand euros.

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**Item 6. Directors, Senior Management and Employees** **Compensation Of Directors, Officers and Members of the Board of Auditors**

The contracts with any executive officers contain the following alternative clauses:

- if the Company terminates the work relationship (with the exception of a termination for good cause) and the executive officer waives certain rights to which he is entitled pursuant to applicable Italian law, the Company will pay to the executive officer a separation allowance in the amount of two to four years of salary plus, in certain cases, a lump sum corresponding to the average bonus compensation received in the three years (or shorter period) preceding his termination; and

- on the initiative of the company, excluding cases of a termination for just cause and reaching retirement age, the company will pay the executive officer, in addition to severance indemnity and compensation in lieu of serving the notice period, an amount equal to the maximum penalty pursuant to art. 19 of the Collective National Labor Contract for Executives of Companies providing Goods and Services, if the executive officer waives the right to request indemnity pursuant to articles 19 and 22 and Collective National Labor Contract for Executives of Companies producing Goods and Services.

The specific provisions applicable to the current Chairman of the Board of Directors and Chief Executive Officer, who have no work relationship with the Company other than their relationships as Executive Directors of Telecom Italia, are described under 6.6.1 Compensation of Directors .

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to Executive Officers.

The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions.

No options were granted or exercised during 2009.

| | | Options held at the beginning of 2009 | | | Options granted during 2009 | | | Options exercised during 2009 | | | Options expired in 2009 | Options held at the end of 2009 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Post held | Number of Equivalent options(*) | Average exercise price(**) | Average expiration date | Number of Equivalent options(*) | Average exercise price(**) | Average expiration date | Number of Equivalent options(*) | Average exercise price(**) | Average market price during year | Number of Equivalent options(*) | Number of Equivalent options (*) (11)= (1)+(4)-(7)-(10) | Average exercise price (**) | Average expiration date |
| (A) | (B) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | | (12) | (13) |
| Luca Luciani | General Manager | 178,247(1) | 2.928015 | 2009 | | | | | | | 178,247 | | | |
| | | 237,663(1) | 2.928015 | 2010 | | | | | | | | 237,663 | 2.928015 | 2010 |
| | | 356,494(1) | 2.928015 | 2009 | | | | | | | 356,494 | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Stefano Pileri | General Manager | | | | | | | |
| | | 475,325(1) | 2.928015 | 2010 | | 475,325 | 2.928015 | 2010 |
| 2002 TOP Plan | Executive Officers | 2,310,609(1) | 2.788052 | 2009 | 2,310,609 | | | |

(*) In order to render the representation of the options homogeneous with that of the underlying subscribable or purchasable shares and also facilitate their measurement based on the relevant exercise prices, Telecom Italia S.p.A. has used the concept of equivalent options . This refers to a quantity of options equal to the number of ordinary shares actually subscribable/purchasable. In this manner, the weighted average market prices and the exercise prices indicated are consistent and directly comparable among each other.

(**) The average exercise price means the average subscription or purchase price of the shares that comes from exercising the options.

(1) Stock Option Plans 2002 and TOP 2002: each option corresponds to the subscription of 3.300871 Telecom Italia ordinary shares (3.300871 equivalent options).

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**Item 6. Directors, Senior Management and Employees** **Compensation Of Directors, Officers and Members of the Board of Auditors**

| | | Options held at the beginning of 2009 | | | Options granted during 2009 | | | Options exercised during 2009 | | | Options expired in 2009 | Options held at the end of 2009 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Post held | Number of options(*) | Average exercise Price(**) | Average expiration date | Number of options(*) | Average exercise Price(**) | Average expiration date | Number of options(*) | Average exercise Price(**) | Average market price during year | Number of options(*) | Number of options (*) (11)= (1)+(4)-(7)-(10) | Average exercise Price(**) | Average expiration date |
| (A) | (B) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | | (12) | (13) |
| Stefano Pileri | General manager | 856,800 | | 2011 | | | | | | | 856,800 | | | |
| Executive Officers | | 4,777,200 | | 2011 | 247,200 | | 2011 | | | | 670,800 | 4,018,800(**) | | 2011 |

(*) This refers to the maximum number of Telecom Italia Ordinary Shares that can be granted under the Performance Share Granting plan on reaching the Performance Targets (refer to the Prospectus published and distributed on August 9, 2008 and the list of recipients to whom the plan is addressed aligned to the Company s organization chart published and distributed on January 1, 2010).

(**) The number of Telecom Italia Ordinary Shares held at the end of 2009 already considers the change in the scope of Executive Officers intervened with the resolution of Board of Directors hold on February 27, 2009.

### 6.6.3 Compensation of Members of the Board of Auditors

The General Shareholders Meeting of April 8, 2009 (which appointed the current Board of Auditors) authorized annual compensation of 80,000.00 euros for each Auditor and 120,000.00 euros for the Chairman of the Board of Auditors. It also decided to award an additional 15,000.00 euros to the member of the Board of Auditors appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Ferdinando Superti Furga).

The total compensation paid by the Company or by any of the Telecom Italia Group subsidiaries in 2009 to the members of the Board of Auditors as of May 6, 2010 was 555,000.00 euros.

The following table sets forth the members of the Board of Auditors in office during 2009 and the compensation received by the Board of Auditors for services rendered during the year ended December 31, 2009:

| Individuals | Description of the position | | Compensation | | | |
|---|---|---|---|---|---|---|
| Name | Position held | Period during which position was held | Compensation base | Non cash benefits | Bonuses and other incentives | Other Compensations |
| | | | (thousand of euros) | | | |
| Paolo GOLIA | Chairman | 1/1- 4/8/2009 | 46 | | | |

| | | | | |
|---|---|---|---|---|
| | Acting Auditor and | 1/1-4/8/2009 | 35(1) | |
| Enrico Maria BIGNAMI | Chairman | 4/8-12/31/2009 | 87 | |
| Lorenzo POZZA | Acting Auditor | 4/8-12/31/2009 | 58 | |
| Gianluca PONZELLINI | Acting Auditor | 4/8-12/31/2009 | 58 | |
| Salvatore SPINIELLO | Acting Auditor | 1/1-12/31/2009 | 93 | 32(1) |
| Ferdinando SUPERTI FURGA | Acting Auditor | 1/1-12/31/2009 | 109(2) | |
| Gianfranco ZANDA | Acting Auditor | 1/1-4/8/2009 | 35 | 2(3) |

(1) Remuneration due for the position of acting statutory auditor of the listed subsidiary Telecom Italia Media S.p.A.

(2) The amount includes remuneration paid as a member of the Supervisory Panel under Legislative Decree 231/2001.

(3) Remuneration in respect of the position of chairman of the board of statutory auditors of the subsidiary IT Telecom S.r.l. The amount includes remuneration in the form of gross compensation as an employee and travel allowance.

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Item 6. Directors, Senior Management and Employees Options To Purchase Securities From Registrant

**6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT**

At the end of 2009, the existing stock options plans related to options which give the right to the subscription of new Telecom Italia Ordinary Shares (including the options at one time granted to TIM S.p.A.).

On April 15, 2008, the Board of Directors approved the implementation of a stock option plan for the Chairman, Gabriele Galateri di Genola, and Chief Executive Officer, Franco Bernabè. The three-year plan allocated 8,400,000 options for the CEO and 3,000,000 options for the Chairman, each giving the right to purchase one Ordinary Share of the Company for each option granted at a price of 1.95 euros per share.

In the period between March 17, 2009 and March 31, 2009, in accordance with this authorization and with the Rules of the Markets Organized and Managed by Borsa Italiana S.p.A. , Telecom Italia purchased the 11,400,000 Ordinary Shares in service of the above-mentioned stock option plan.

For further details, please see Note Stock option and performance share granting plans of the Telecom Italia Group of the Notes to the Consolidated Financial Statements.

The Shareholders Meeting held on April 29, 2010 resolved to launch:

- the 2010-2014 public shareholding plan for employees that calls for a subscription offering reserved for employees of a maximum of 31,000,000 Ordinary Shares at a discount of 10% off the market price, up to a maximum limit of euro 3,000 per employee, with an instalment option. Subscribers who retain their Shares for one year, subject to remaining in the Company s employ, shall receive one bonus Ordinary Share for every three Shares subscribed for cash.

- the 2010-2015 long-term incentive plan reserved for a selected portion of Telecom Italia s executives, that calls for beneficiaries to be granted a cash bonus based on three-year performances (2010-2012) according to predetermined parameters, with the option to invest 50% of the bonus accrued in newly issued Ordinary Shares at market prices, up to a maximum amount of Euro 5 million. Subscribers who retain their Shares for two years, subject to remaining in the Company s employ, shall be granted one bonus Ordinary Share for each Share subscribed for cash.

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Item 7. Major Shareholders and Related-Party Transactions Major Shareholders

## Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

### 7.1 MAJOR SHAREHOLDERS

At December 31, 2009 according to the shareholders register and other information in the Company s possession, the parties which held shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia were the following:

| | | As of December 31, 2009 | |
|---|---|---|---|
| Major Shareholders | Type of ownership | No. Ordinary Shares | % of ordinary share capital |
| Telco S.p.A. | (direct) | 3,003,586,907 | 22.45 |
| Findim Group S.A. | (direct) | 668,931,444 | 4.99 |
| Sintonia S.A. | (direct) | 275,115,716 | 2.06 |

As of May 6, 2010, the above mentioned position is the following:

| | | As of May 6, 2010 | |
|---|---|---|---|
| | Type of ownership | No. Ordinary Shares | % of ordinary share capital |
| Telco S.p.A. | (direct) | 3,003,586,907 | 22.45 |
| Findim Group S.A. | (direct) | 668,931,444 | 4.99 |
| BNP Paribas S.A. | (direct and indirect) | 380,012,396(*) | 2.84 |
| (*) number of shares with voting rights held: | | 277,178,396 | 2.07 |

At December 31, 2009, Telecom Italia held 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

The companies listed below, in their capacity as asset management companies, disclosed the following information to Consob:

- Brandes Investment Partners LP, of a total number of 538,393,272 Ordinary Shares equal to 4.02% of Telecom Italia s ordinary share capital, on July 23, 2008;

- AllianceBernstein LP, of a total number of 276,847,450 Ordinary Shares equal to 2.07% of Telecom Italia s ordinary share capital, on November 14, 2008;

- Blackrock Inc., of a total number of 377,794,894 Ordinary Shares equal to 2.82% of Telecom Italia s ordinary share capital, on December 1, 2009.

For more details about the significant changes in the percentage of ownership held by major shareholders organizational structure, please see Item 4.Information on the Telecom Italia Group 4.1 Business 4.1.1 Background .

### 7.1.1 Shareholders Agreements

The information contained herein regarding shareholders agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

On April 28, 2007, a group of Investors, made up of the Class A Shareholders and Telefónica, entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which they purchased the entire share capital of Olimpia, from Pirelli and the Sintonia Sellers.

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was executed on October 25, 2007 by Telco, to which Ordinary Shares equal to 5.6% of the Telecom Italia Ordinary Share capital were conferred on the same date by Mediobanca S.p.A. and companies of the Generali group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia Ordinary Share capital, of which 17.99% were held through Olimpia.

Telco was held by Generali group (28.1%), Intesa Sanpaolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%).

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Effective as from December 18, 2007 Olimpia merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.595% in Telecom Italia s ordinary share capital.

On March 20, 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia s ordinary share capital to 24.5%.

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders agreements concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders Telecom Italia is aware of are the agreements among the Investors and Telco.

In accordance with the shareholders agreement entered into on April 28, 2007 by the Investors (the Shareholders Agreement), after the closing of the Share Purchase Agreement, the Board of Directors of Telco approved the list to be submitted to the shareholders meeting of Telecom Italia held on April 14, 2008, for the appointment of the directors of Telecom Italia, pursuant to the following criteria: (i) Telefónica to the extent it holds at least 30% of Telco s share capital has the right vis-à-vis the other parties to designate two directors of Telecom Italia to be included as designees for appointment in the Board of Directors of Telecom Italia in the list and, to the extent feasible, pursuant to article 2386, first paragraph, of the Italian Civil Code (i.e. through co-optation) and (ii) the Class A Shareholders to the extent they hold at least 50% plus one share of Telco s share capital may designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on the basis of a proportionality criterion.

On October 28, 2009 the Investors other than Sintonia, namely Intesa Sanpaolo, Mediobanca, Generali and Telefónica (Non-Exiting Shareholders) acknowledged Sintonia s decision to exit from Telco and, by entering into the Renewal Agreement (effective as of April 28, 2010) agreed:

(i) not to request the non-proportional de-merger of Telco, with the assignment of their corresponding share of Telecom Italia Shares at that time; and

(ii) to renew the Shareholders Agreement for an additional term of three years until April 27, 2013, substantially on the same terms and conditions, except that:

(a) the right of the Non-Exiting Shareholders to request the non-proportional de-merger of Telco not later than six months prior to the new expiry date will only be exercisable in the period between October 1, 2012 and October 28, 2012; and

(b) an early withdrawal right period may be exercised between April 1, 2011 and April 28, 2011 (such Shareholders Agreement, as amended and renewed, the New Shareholders Agreement ).

In accordance with the Shareholders Agreement, the Investors have agreed that the Telecom Italia Group and Telefónica group will be managed autonomously and independently. In particular, the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at the Board of Directors meetings at which resolutions will be discussed and proposed relating to the policies, management and operations of companies directly or indirectly controlled by Telecom Italia providing services in countries where

regulatory and legal restrictions or limitations for the exercise of voting rights by Telefónica are in force.

Accordingly Cesar Alierta and Julio Linares committed not to take part in any discussion or to vote in matters concerning activities of Telecom Italia or Telecom Italia s subsidiaries in the Brazilian or Argentinian telecommunications markets.

On October 25, 2007, an Amendment to the Co-investment and Shareholders Agreement was signed in which, inter alia, the contents of the ruling by ANATEL (the Brazilian telecommunications regulator) announced on October 23, 2007 and published on November 5, 2007 (the **ANATEL Ruling** ), which approved the indirect acquisition by Telco of the Brazilian Telecom Italia subsidiaries, were acknowledged and each party undertook to implement the content thereof through appropriate legal measures and actions. In furtherance of that undertaking, respectively on November 19, 2007 and on November 20, 2007, the Shareholders Agreement and the By-laws of Telco were amended to implement the clauses contemplated in the ANATEL Ruling.

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Specifically with respect to Telecom Italia s Brazilian telecommunication operations, the Parties have agreed as follows.

While applicable regulatory restrictions and limitations exist:

- Telefónica and the directors/officers nominated by Telefónica may not participate, vote or veto resolutions in meetings of shareholders, the board or committees or organs with equivalent functions of Telco, Telecom Italia or any other company controlled by Telecom Italia when the subject matter concerns engaging in telecommunications activity in the Brazilian market. In addition, Telefónica may not nominate or designate directors or officers (i) of companies with their registered office in Brazil that are controlled by Telecom Italia and supply telecommunications services in the Brazilian market or (ii) of companies with their registered office in Brazil controlling such suppliers of telecommunications services;

- Telefónica must take steps to ensure that its subsidiaries supplying telecommunications services in the Brazilian market do not enter into certain types of relationship with the companies controlled by Telecom Italia that supply telecommunications services in the Brazilian market, on terms and conditions different from those envisaged by the provisions of Brazilian law applicable to telecommunications;

- Telefónica, including where it exercises the right to acquire shares of Telco, may not exercise direct or indirect control over any company controlled by Telecom Italia in Brazil;

- the parties to the agreement must give instructions to the members of the Board of Directors of Telco they have respectively nominated and to the members of the Board of Directors of Telecom Italia nominated by Telco for: (i) separate agendas to be prepared for the meetings of the Boards of Directors of Telco, Telecom Italia and Telecom Italia International N.V. and every other company with its registered office outside Brazil that is controlled by Telecom Italia and has investments in the Brazilian telecommunications sector in which the directors nominated by Telefónica are allowed to attend and for the meetings in which the participation of the directors nominated by Telefónica is not allowed; and (ii) a copy of the agendas and minutes of the meetings referred to in point (i) is to be delivered to Anatel within a time limit of 30 days.

The restrictions and limitations imposed on Telefónica shall survive also in the event of a demerger of Telco as provided in the Shareholders Agreement, as long as applicable regulatory restrictions and limitations exist at the time of such demerger.

In compliance with the ANATEL Ruling, the Brazilian Telecom Italia subsidiaries submitted to ANATEL, on November 22, 2007, the relevant corporate instruments (including a Telecom Italia Group internal procedure adopted by the Board of Directors of Telecom Italia and directed to Telecom Italia Group companies) to implement the measures and procedures required by the ANATEL Ruling to assure the segregation of Telecom Italia s activities in Brazil from any potential influence of Telefónica. As a result, Telecom Italia s Brazilian subsidiaries continue to operate independently and autonomously in the Brazilian market.

The ANATEL Ruling also provided for a period of 6 months ending on May 5, 2008 for the parties to submit additional possible measures for ANATEL s approval in order to guarantee the maintenance of a complete segregation ( **total desvinculação** ) between Vivo, Telefonica s Brazilian mobile operator, and TIM, Telecom Italia s Brazilian mobile operator. The Brazilian Telecom Italia subsidiaries proposed a list of such additional measures on May 2, 2008.

On July 31, 2008 Anatel approved the corporate instruments filed on November 22, 2007 after finding full compliance with the restrictions imposed by the ANATEL Ruling in this respect. Approval of the additional measures filed on May 2, 2008, was obtained on July 7,2009.

On April 28, 2010, the board of the Brazilian Antitrust Commission (CADE) unanimously approved the acquisition by Telco of an indirect minority shareholding in Telecom Italia occurred in 2007, subject to the simultaneous signing of an agreement (*Termo de Compromisso and Desempenho Tcd),* by and between all the Telco shareholders Mediobanca, Generali, Intesa Sanpaolo and Telefónica and CADE. Tim Brasil executed such agreement exclusively as an intervening party, on behalf of the Telecom Italia Group, since the latter was not formally a party to the antitrust proceedings.

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Such agreement, aimed at assuring the effective segregation between the Telefónica and Telecom Italia Groups in relation to their respective operations in Brazil, provides for certain undertakings for all involved parties, including the restrictions already imposed by the Brazilian telecommunication Agency Anatel in its decisions of November 2007 and July 2009 on the Telco transaction, plus some additional commitments.

Moreover, on December 2, 2008 the Board of Directors of Telecom Italia adopted an internal procedure that formalizes the already existing separation between the activities of the Telecom Italia Group and the Telefónica Group in the Argentine telecommunications market.

Lastly, in January 2009 the Argentine antitrust Authority ( **CNDC** ) by means of its Resolution 04/09 ( **Resolution 04/09** ) , determined that the acquisition by Telco of Olimpia (the **Telco Transaction** ) would represent an economic concentration in the Argentine telecommunication market. Accordingly, the CNDC imposed on the parties of the Telco Transaction an obligation to notify the transaction to the same Authority and ordered that the shareholders of Telco shall not exercise their *derechos politicos* as direct or indirect shareholders of Telecom Italia, Telco, Telecom Italia International, Sofora, Nortel, Telecom Argentina and their controlled entities, until a final decision on the effects of the Telco Transaction on the local market competition would be taken. This restriction, according to qualified opinions, is limited to the Argentine market.

Even if the abovementioned Resolution 04/09 is not directed towards Telecom Italia, the board of directors of Telecom Italia, taking into consideration the contents of such Resolution, approved a modification of the governance of Telecom Italia Group with respect to the Argentine market.

For a discussion of further developments since January, 2009, see 8.2 Legal Proceedings and Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

### 7.1.2 Shareholders Ownership

v **Board of Directors**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2009 or a part of that year, have held the post of director in Telecom Italia S.p.A.

| Name | Company | Class of shares | Number of shares held at the end of 2008 (or at the date of appointment) | Number of shares purchased in 2009 | Number of shares sold in 2009 | Number of shares held at the end of 2009 (or as of the date on which individual left post, |
|---|---|---|---|---|---|---|

| | | | | | **if before)** |
|---|---|---|---|---|---|
| Gabriele GALATERI DI GENOLA | Telecom Italia S.p.A. | Ordinary | 176,000 | | 176,000 |
| | | Savings | 88,000 | | 88,000 |
| Franco BERNABÈ | Telecom Italia S.p.A. | Ordinary | 168,000(1) | | 168,000(1) |
| | | Savings | 180,000(2) | | 180,000(2) |
| César ALIERTA IZUEL | | | | | |
| Paolo BARATTA | Telecom Italia S.p.A. | Ordinary | 345,000(3) | 172,500(3) | 172,500(3) |
| Tarak BEN AMMAR | | | | | |
| Roland BERGER | Telecom Italia S.p.A. | Ordinary | 562,500 | | 562,500 |
| | | Savings | 700,000 | | 700,000 |
| Stefano CAO | | | | | |
| Elio Cosimo CATANIA | | | | | |
| Jean Paul FITOUSSI | | | | | |
| Berardino LIBONATI | Telecom Italia S.p.A. | Ordinary | 373,100 | | 373,100 |
| Julio LINARES LÓPEZ | | | | | |
| Gaetano MICCICHÉ | | | | | |
| Aldo MINUCCI | Telecom Italia S.p.A. | Ordinary | 2,595 | | 2,595 |
| Gianni MION | Telecom Italia S.p.A. | Ordinary | 27,000(3) | | 27,000(3) |
| | | Savings | 35,000(3) | | 35,000(3) |
| Renato PAGLIARO | Telecom Italia S.p.A. | Savings | 60,000 | | 60,000 |
| Luigi ZINGALES | Telecom Italia S.p.A. | Ordinary | 58,000 | | 58,000 |

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(1) Of which 18,000 shares held indirectly.

(2) Of which 30,000 shares held indirectly.

(3) Shares held indirectly.

v **Board of Auditors**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2009 or a part of that year, have held the post of auditor in Telecom Italia S.p.A.

| Name | Company | Class of shares | Number of shares held at the end of 2008 (or at the date of appointment) | Number of shares purchased in 2009 | Number of shares sold in 2009 | Number of shares held at the end of 2009 (or as of the date on which individual left post, if before) |
|---|---|---|---|---|---|---|
| Paolo GOLIA | Telecom Italia S.p.A. | Ordinary | 1,437 | | | 1,437 |

v **Executive Officers**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2009 or a part of that year, have held the post of general manager in Telecom Italia S.p.A.

| Name | Company | Class of shares | Number of shares held at the end of 2008 (or at the date of appointment) | Number of shares purchased in 2009 | Number of shares sold in 2009 | Number of shares held at the end of 2009 (or as of the date on which individual left post, if before) |
|---|---|---|---|---|---|---|
| Luca LUCIANI | Telecom Italia S.p.A. | Savings | 55,484 | | | 55,484 |
| Stefano PILERI | Telecom Italia S.p.A. | Ordinary | 10,892 | | | 10,892 |

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2009 or a part of that year, have held the post of executive officers (other than the general managers) in Telecom Italia S.p.A.

| Company | Class of shares | Number of shares held at the end of 2008 (or at the date of appointment) | Number of shares purchased in 2009 | Number of shares sold in 2009 | Number of shares held at the end of 2009 (or as of the date on which individual left post, if before)(1) |
|---|---|---|---|---|---|
| Telecom Italia S.p.A. | Ordinary | 37,132 | | | 37,132 |
| Telecom Italia S.p.A. | Savings | 55,484 | | | 55,484 |
| Telecom Italia Media S.p.A. | Ordinary | 48 | | | 48 |

(1) During 2009, Mr. Luca Luciani and Mr. Stefano Pileri have held the post of general managers (until 2/27/2009) and executive officers (from 2/27/2009); the shares held by them are included in the aggregate amount relating to executive officers.

* * *

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As of May 6, 2010 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

### 7.1.3 Continuing Relationship with the Italian Treasury

The Treasury continues to be 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. Such powers, the so-called golden share, were established in 1997 according to Law No. 474/1994, when Telecom Italia formerly controlled by the Italian Treasury was privatized.

On May 22, 2003, taking into account the proposed Merger, a Decree by the Minister of Economy and Finance, in agreement with the Minister for Productive Activities, maintained the power of approving the acquisition of major shareholding in the company s voting capital (3% of Telecom Italia s voting share capital or more) and the power of veto over resolutions to dissolve the company, approve mergers, demergers or dispositions of the business, transfer the registered office abroad, change the corporate purposes or amend and modify the special powers. On the other hand, the Treasury s power to approve major shareholders agreements and the power to appoint one Director and one Statutory Auditor were relinquished.

Law No. 350/2003, adopted in December 2003, significantly modified the rules governing the special powers, of the Italian Government with respect to privatized companies stating, in particular, that the Government no longer has the power to approve or disapprove the acquisition of material interests in the share capital of such companies, but instead may object, within a ten-day period, in case of prejudice to vital State Interests and each time there is the need to protect subsequent undeniable reasons of public interest, in accordance with specific criteria set forth in an ad-hoc decree of the Government dated June 10, 2004.

As a result, on April 1, 2005 a new Decree by the Minister for Economy and Finance, in agreement with the Minister for Productive Activities redefined accordingly the content of the special powers clause in the Telecom Italia bylaws, and stated its exact wording. Subsequently the relevant provision of the bylaws was amended accordingly.

On March 26, 2009, the European Court of Justice declared that, by adopting the provisions contained in decree of the Government dated June 10, 2004 defining the criteria for the exercise of the special powers, the Italian Republic failed to fulfil its obligations under the EC Treaty. Specifically, infringement of Articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the EC Treaty arises from the fact that the Decree of 2004 does not make sufficiently clear the conditions for the exercise of the special powers, which do not enable investors to know in what situations the powers will be used. That want of precision in the determining of the specific objective circumstances which justify the State s recourse to the special powers gives those powers a discretionary nature, the result being to discourage investors generally, more specifically those contemplating settling in Italy with a view to exerting some influence on the management of the undertakings to which the legislation at issue applies.

The ruling applies to the Italian Republic only, as a member State of the EC, but does not have any direct effect on the aforementioned provisions which for the time being remain in force and on the Company, which is under legal obligation to abide by existing legal provisions, including those on the basis of which the EC Court ruled against the Italian Republic.

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**7.2 RELATED-PARTY TRANSACTIONS**

There are no significant transactions with related parties, including intragroup transactions, which are nonrecurring or of an unusual/atypical in nature.

For further information on related party transactions please see Note Related party transactions of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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## Item 8. FINANCIAL INFORMATION

### 8.1 HISTORICAL FINANCIAL STATEMENTS

See Items 18 and 19 for a list of financial statements and other financial information filed with this report.

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**8.2 LEGAL PROCEEDINGS**

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For further details, please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

In addition, please see the update of this Note.

**ARGENTINA**

With respect to the two precautionary measures issued on August 26 and 28, 2009 by the Administrative Trial Court of Buenos Aires, on March 23, 2010 the Administrative Court of Appeal admitted the extraordinary appeal (*Recurso extraordinario)* filed by Telecom Italia and Telecom Italia International with the Argentine Supreme Court. The proceeding is pending before such Supreme Court.

On March 9, 2010, the Administrative Trial Court of Buenos Aires served Telecom Italia, Telecom Italia International and the companies of the Telecom Argentina group with a preliminary injunction which, among other things, confirms the enforcement of the measures issued on August 26 and 28, 2009 by the same Trial Court. On such basis (i) the board members of the companies belonging to the Telecom Argentina group designated on indication of Telecom Italia and/or Telecom Italia International have been excluded from the exercise of their functions within the boards of directors of such companies; and (ii) the corporate books of Nortel, Telecom Argentina, Telecom Personal and Sofora were placed in the custody of the vice chairmen (designated by Los W) of each company. Telecom Italia and Telecom Italia International have appealed such preliminary injunction.

* * *

With reference to the Shareholders Meetings of the companies of Telecom Argentina group, in April 2010 certain preliminary rulings were granted by the Commercial Court, suspending the discussion of items in the agenda related to the renewal of the members of the corporate bodies in the Argentine companies.

**ARGENTINA CNDC**

With reference to Resolution 3/10 issued on January 6, 2010 by the Secretaría de Comercio Interior (SCI), on March 29, 2010 the Criminal Economic Court of Appeal, which was hearing the appeal brought by Telecom Italia and Telecom Italia International against Resolution SCI 3/10, terminated the proceeding, as a consequence of the abrogation of such Resolution ordered by Resolution 82/10 of the Argentine Ministry of Economy (Ministerio de Economía y Finanzas Públicas) and Resolution 14/10 of the Secretaría de Política Económica (SPE).

* * *

As requested by Resolution 30/10 issued by Argentine Antitrust Authority CNDC, which, among other things, granted Telecom Italia and Telecom Italia International a term to access the file of the antitrust proceeding and provide with their comments, both companies submitted such comments.

With Resolution 38/10 issued on March 18, the CNDC among others sent the appeal against Resolution 82/10 and 14/10, respectively, to the Ministry of Economy and to the SPE for the prosecution of the proceedings, while the appeal against Resolution 30/10 was sent to the Criminal Economic Court of Appeal. All such appeals are currently under review by the Criminal Economic Court of Appeal.

* * *

The Argentine Supreme Court on April 16, 2010 issued a decision by which it affirmed the competence of the Criminal Economic Court of Appeal to rule on the appeals brought by Telecom Italia Group against the Resolutions issued by CNDC. Such decision was rendered as a result of the analysis of the conflict of jurisdiction between the Civil and Commercial Court of Appeal and the Criminal Economic Court of Appeal, which arose after the CNDC sent to the latter Court the files related to the appeal against Resolution 64/09.

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**GREECE DELAN**

With reference to the Delan case, in 2009 Carothers Ltd (acting as successor of Delan) initiated a proceeding, against Wind Hellas, seeking a preliminary injunction as well as on the merits before Greek Courts, on grounds apparently similar to those sustained in the Arbitral case.

Wind Hellas in turn served Telecom Italia International with an impleader to join in such proceedings, by virtue of the indemnification obligations under the Stock Purchase Agreement entered in 2005 according to which TIM International (now Telecom Italia International) disposed its interest in TIM Hellas (now Wind Hellas). Such impleader has been extended to the preliminary injunction phase as well, where Carothers is seeking an attachment on Wind Hellas assets.

**TELECOM ITALIA SPARKLE CASE**

In addition to the information included in Note *Restatement as a result of errors and changes in accounting policies* and Note *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, on May 6, 2010 the Italian Finance Police after completing the tax audit it commenced on March 29, 2010 focused on VAT and direct taxes for the fiscal years 2005, 2006 and 2007 served Telecom Italia Sparkle with a report setting out the amount invoiced allegedly related to transactions without substance regarding traffic received by two of the telecommunication carriers subject of the investigation in 2005, 2006 and 2007.

As a result of the foregoing, the Italian Finance Police stated that:

- 298 million euros of VAT, arising from the transactions considered to be without substance, had been wrongly deducted; and
- costs associated with the alleged non-substantive transactions are non-deductible, for IRES and IRAP purposes, with a charge estimated at 429 million euros, plus penalties and interest.

In that regard discussions have been initiated with the Italian Revenue Agency to settle the disputes with respect to the alleged wrongly deducted VAT. The estimate of the likely settlement amount, including taxes, interest and penalties, is approximately 421 million euros. This amount was set aside as a provision in the consolidated financial statements as of December 31, 2009. As for the dispute regarding direct taxes, the Group believes, based in part on advice by tax professionals, that the risk is only possible ; as a result no provision has been set aside for such a risk.

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## Item 9. LISTING

### 9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES

The principal trading market for the Ordinary Shares and the Savings Shares is on Telematico, an automated screen trading system managed by Borsa Italiana. (See 9.2 Securities Trading in Italy ).

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares have been quoted on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company s Depositary issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from the First Quarter of 2005.

| | Telematico | | NYSE | |
|---|---|---|---|---|
| | High | Low | High | Low |
| | ( ) | | (U.S.$) | |
| **2005:** | | | | |
| First Quarter | 3.168 | 2.790 | 41.16 | 36.93 |
| Second Quarter | 2.978 | 2.486 | 38.59 | 30.14 |
| Third Quarter | 2.734 | 2.479 | 33.86 | 29.95 |
| Fourth Quarter | 2.719 | 2.305 | 32.13 | 26.95 |
| **2006:** | | | | |
| First Quarter | 2.614 | 2.257 | 31.87 | 26.89 |
| Second Quarter | 2.427 | 2.119 | 30.21 | 26.68 |
| Third Quarter | 2.269 | 2.065 | 29.18 | 25.88 |
| Fourth Quarter | 2.405 | 2.205 | 31.06 | 27.99 |
| **2007:** | | | | |
| First Quarter | 2.426 | 2.108 | 31.71 | 27.88 |
| Second Quarter | 2.430 | 2.031 | 32.53 | 27.01 |
| Third Quarter | 2.164 | 1.9 | 30.59 | 25.43 |
| Fourth Quarter | 2.237 | 2.062 | 32.83 | 29.06 |
| **2008:** | | | | |
| First Quarter | 2.136 | 1.214 | 31.18 | 18.82 |
| Second Quarter | 1.502 | 1.245 | 23.54 | 19.38 |
| Third Quarter | 1.359 | 1.037 | 21.27 | 14.8 |
| Fourth Quarter | 1.169 | 0.759 | 16.25 | 9.53 |
| **2009:** | | | | |
| First Quarter | 1.193 | 0.780 | 16.54 | 9.64 |
| Second Quarter | 1.048 | 0.920 | 14.36 | 11.96 |
| Third Quarter | 1.253 | 0.946 | 18.50 | 13.13 |
| October | 1.218 | 1.099 | 17.99 | 15.86 |
| November | 1.147 | 1.058 | 17.04 | 15.87 |
| December | 1.096 | 1.050 | 16.42 | 15.15 |

| | | | | |
|---|---|---|---|---|
| **2010:** | | | | |
| January | 1.100 | 1.019 | 15.71 | 14.26 |
| February | 1.138 | 1.045 | 15.91 | 14.15 |
| March | 1.089 | 1.053 | 14.86 | 13.97 |
| April | 1.134 | 1.035 | 15.46 | 13.43 |
| May (through May 6, 2010) | 1.052 | 0.970 | 13.92 | 11.68 |

Source: Bloomberg data

At the close of business on May 6, 2010 there were 30,928,726 Ordinary Share ADSs outstanding held by 133 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 30,917,641 Ordinary Share ADSs on behalf of beneficial holders.

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**Item 9. Listing** **Trading Of Telecom Italia Ordinary Shares And Savings Shares**

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from the First Quarter of 2005.

| | Telematico | | NYSE | |
|---|---|---|---|---|
| | High | Low | High | Low |
| | ( ) | | (U.S.$) | |
| **2005:** | | | | |
| First Quarter | 2.519 | 2.303 | 32.90 | 30.71 |
| Second Quarter | 2.540 | 2.052 | 32.51 | 24.64 |
| Third Quarter | 2.306 | 2.063 | 27.97 | 24.75 |
| Fourth Quarter | 2.301 | 1.938 | 26.94 | 22.32 |
| **2006:** | | | | |
| First Quarter | 2.240 | 1.905 | 27.12 | 22.70 |
| Second Quarter | 2.209 | 1.912 | 27.13 | 24.26 |
| Third Quarter | 2.038 | 1.841 | 26.31 | 23.43 |
| Fourth Quarter | 2.043 | 1.885 | 26.60 | 23.68 |
| **2007:** | | | | |
| First Quarter | 2.024 | 1.810 | 26.35 | 23.53 |
| Second Quarter | 1.985 | 1.625 | 26.32 | 21.42 |
| Third Quarter | 1.753 | 1.509 | 24.35 | 19.76 |
| Fourth Quarter | 1.798 | 1.597 | 26.41 | 22.86 |
| **2008:** | | | | |
| First Quarter | 1.606 | 0.9436 | 23.53 | 14.75 |
| Second Quarter | 1.181 | 1.011 | 18.52 | 15.63 |
| Third Quarter | 1.075 | 0.7962 | 16.72 | 11.27 |
| Fourth Quarter | 0.811 | 0.552 | 11.34 | 6.71 |
| **2009:** | | | | |
| First Quarter | 0.859 | 0.610 | 12.04 | 7.51 |
| Second Quarter | 0.814 | 0.633 | 10.91 | 8.59 |
| Third Quarter | 0.875 | 0.665 | 12.91 | 9.25 |
| October | 0.861 | 0.763 | 12.77 | 11.01 |
| November | 0.794 | 0.749 | 11.91 | 11.11 |
| December | 0.777 | 0.752 | 11.62 | 10.78 |
| **2010:** | | | | |
| January | 0.835 | 0.762 | 11.55 | 10.94 |
| February | 0.880 | 0.782 | 12.02 | 10.62 |
| March | 0.843 | 0.787 | 11.52 | 10.63 |
| April | 0.900 | 0.829 | 12.19 | 10.91 |
| May (through May 6, 2010) | 0.858 | 0.816 | 11.33 | 10.02 |

Source: Bloomberg data

At the close of business on May 6, 2010, there were 27,749,273 Savings Share ADSs outstanding held by 18 registered holders.

One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 27,743,307 Savings Share ADSs on behalf of beneficial holders.

Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange.

On May 6, 2010 the Noon Buying Rate for the Euro was U.S.$ 1.2689 = 1.00.

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**9.2 SECURITIES TRADING IN ITALY**

Italian equity securities are traded on the regulated electronic stock market Mercato Telematico Azionario or MTA ( **Telematico** ), which operates under the control of the Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange or Consob ), the public authority in charge of regulating the securities markets and all public offerings of securities in Italy in order to ensure the transparency and regularity of trading and protect investors.

Telematico is managed by Borsa Italiana, a joint stock company part of the London Stock Exchange Group, responsible for the organization and management of the Italian stock exchange.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third trading day following the trading date. Borsa Italiana issues a daily official list with certain information on transactions in each listed security, including the volume traded and the high and low prices of the day. No last price is reported, but an official price calculated as a weighted average price of all trades performed during the trading day and a reference price as for the closing auction price. The Bank of Italy, in accordance with Consob, regulates the governing of the clearing system that is currently performed in Italy on an exclusive basis by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

If in the course of a trading day the maximum price variation between two consecutive contracts is ±5%, or maximum price variation of the contracts with respect to the reference price is ±10% an automatic five-minute suspension is declared. Furthermore Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

Starting May 15, 2000, the most liquid shares traded on Telematico, including Telecom Italia ordinary shares, have been traded on Mercato After Hours , an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 10.00 p.m. on every trading day, substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalisation, the FTSE MIB Index measures the performance of the 40 most liquid and capitalised Italian shares and seeks to replicate the broad sector weights of the Italian stock market. The index is derived from the universe of stocks trading on Borsa Italiana s Telematico market.

The index is calculated in accordance with the Industry Classification Benchmark ( **ICB** ) where main sectors are: Oil & Gas, Constructions & Material, Industrials Goods and Services, Automobiles & Parts, Media, Telecommunications, Utilities, Banks, Technology, Insurance and Personal & Household Goods. Each constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents are reviewed twice a year (March and September), whereas the rebalancing weights are re-calculated quarterly in March, June, September and December. The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).

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### 9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES

Legislative Decree No. 213 of June 24, 1998 ( **Dematerialization Decree** ) provided for the dematerialization of financial instruments publicly traded on regulated markets including treasury bonds. From July 9, 1998, all companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must settle electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).

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Item 10. Additional Information Corporate Governance

## Item 10. ADDITIONAL INFORMATION

### 10.1 CORPORATE GOVERNANCE

#### General

The Company s corporate governance system is made up of a series of principles, rules and procedures drawn by applicable laws and regulations and from international best practices. The system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. Most of these documents are available in an English language version on the Internet at www.telecomitalia.it under Governance .

According to applicable Italian law, listed issuers shall annually disclose information on their adoption of and, in case, compliance with codes of conduct promoted by management companies of regulated markets (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations of market participants.

#### v Changes In The Regulatory Framework

Legislative Decree No. 27/2010 finally enacted in Italy certain provisions of the EU Shareholders Rights Directive ( Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies ), which significantly modifies existing rules governing the meetings of shareholders of listed companies.

Apart from minor provisions, the Decree will come into force as from the shareholders meetings that will be convened after October 31, 2010. A list of the most significant new rules is the following:

- the minimum periods for the convocation of the shareholders meetings will vary depending on the issues to be discussed (40-day notice for the appointment of directors and/or statutory auditors in case of vote by slates; 21-day notice for share capital reduction because of losses and appointment/revocation of a receiver; 15-day notice in case of meetings convened to counter a hostile tender offer; general term of notice confirmed in 30 days);
- no more compulsory publication of the notice in the Italian Official Gazette;
- publication of explanatory reports on the items in the agenda required simultaneously with the publication of the notice of the meeting;

- new terms for the filing and publication of lists of nominees for the appointment of directors and statutory auditors (at least 25 and 21 days respectively before the meeting takes place);

- holding of shares on the record date (set at seven trading days before the meeting) as the sole requirement for attending the meeting and voting;

- right to ask questions even before the meeting. In case, the company will answer the questions in the meeting at the latest;

- no limits to the number of proxies for any single proxy-holder;

- obligation (short of specific contrary provision in the company s by-laws) for the company to appoint a representative who will receive proxies and voting instructions from any interested company s shareholder;

- no minimum stake ownership for solicitation of proxies;

- new electronic instruments for the exercise of shareholders rights (conferment and notification of power of attorney);

- obligation for the issuer to file its draft annual statements (approved by the board only and not any more by the shareholders meeting as well) within 120 days from the previous fiscal year end;

- possible convocation of shareholders meetings at one call only (with minimum applicable quorum), subject to a specific provision in the by-laws;

- possible exercise of voting rights by mail or electronically, subject to a specific provision in the by-laws;

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- possible right (both for the company and holders of a minimum stake in its share capital) to ask intermediaries for a shareholders identification at any time, subject to a specific provision in the by-laws;

- premium dividend (up to 10%) for shareholders who maintain their stake (up to 0.5% of the entire share capital) for a minimum period of one year, subject to a specific provision in the by-laws.

The description that follows does not consider the new rules which largely call for subsequent regulations by Consob, to be issued within a general term of six months starting from March 20, 2010 and not available yet as of May 6, 2010. As of May 6, 2010 no decision has been taken by the Company as for the various options to be made (or available for introduction) in the by-laws.

With regulation No. 17221 dated as of March 12, 2010, Consob adopted a new discipline governing transactions with related parties.

Consob regulation calls for issuers adopting ad hoc internal procedures for the approval of this kind of transactions, with a significant role to be granted to independent directors in the relevant decision process and significant disclosure requirements in case of material transactions.

Companies are required to approve their internal procedures by October 1, 2010, to come into force and become compulsory starting from January 1, 2011.

As of May 6, 2010 discussions to this end in Telecom Italia are at a preliminary level. The internal rules and/or legal provisions hereinbelow described are the existing and applicable ones as of May 6, 2010.

v **Code of Ethics and Conduct**

The Code of Ethics and Conduct (the **Code of Ethics** ) of the Telecom Italia Group is central to Telecom Italia Group s system of corporate governance as it spells out the Company s fundamental values and the principles considered necessary to ensure an ethically oriented conduct of business. The Code can be considered as the basis of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. The Code specifies the principles to be respected in relations with all the main stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

As with all of the Company s corporate governance codes and principles, the Code of Ethics is updated in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices.

For further details, please see Item 16B. Code of Ethics and Conduct .

**v BOARD OF DIRECTORS**

The Company s system of corporate governance is centered around the Board of Directors. The Telecom Italia Self-Regulatory Code supplements the applicable rules concerning the tasks and functioning of the Board of Directors. All the directors are required to comply with the Self-Regulatory Code. The Self-Regulatory Code has been adopted by the Board of Directors as a self-regulatory measure only and can therefore be amended at any time with a resolution adopted by the Board and promptly disclosed to the market.

Since 2005, Telecom Italia s directors have carried out an annual Board performance evaluation.

***Role and tasks***

The Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to formulate strategy and responsibility for intervening directly in decisions having the

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greatest impact on the activity of the Company and the Group. In particular, as specified in the Self-Regulatory Code, the tasks entrusted to the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification;
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;
- preparing and adopting the Company s corporate governance rules and drawing up the Group s governance guidelines;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

The strategic transactions to be submitted to the Board for its prior approval include:

- agreements with competitors of the Group that have an impact on the Group s strategic business choices;
- transactions that entail the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding 250 million euros; transactions that can result in commitments and/or purchase and/or sale transactions of this nature and scale;
- purchase and sale transactions referring to companies or business units that are of strategic significance in the overall framework of the business or exceed 250 million euros; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;
- purchase and sale transactions of controlling or affiliated shareholdings exceeding 250 million euros or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;

- the taking out of loans exceeding 500 million euros and the granting of loans and guarantees in favor of nonsubsidiary companies for amounts exceeding 250 million euros; transactions that can results in commitments and/or transactions of this nature and scale;

- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;

- the listing on (delisting from) European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group; and

- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company s direction and coordination function in relation to the carrying out of transactions which meet the aforementioned criteria.

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency: to this end Telecom Italia has adopted the notion of related party spelled out in IAS 24, as suggested by Consob, the Italian authority competent to supervise financial markets.

On March 6, 2008 the Board of Directors introduced the set of procedures presently in force. These are based on a diversification of the decision-making roles and responsibilities according to the type of activity in question (whether or not in the ordinary course of business) and the manner of determining terms and conditions of transactions with related parties (distinguishing between standard term conditions defined by third parties, competitive procedures, and benchmarking procedures for ascertaining their market comparability).

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**Item 10. Additional Information** **Corporate Governance**

For additional information, see Item 7. Major Shareholders and Related-Party Transactions 7.2 Related-Party Transactions .

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Internal Control and Corporate Governance Committee.

As the body primarily responsible for the internal control system, the Board of Directors avails itself of the above-mentioned Committee and:

- the head of the internal audit function, which is entrusted to the consortium company Telecom Italia Audit & Compliance Services; and

- with reference to internal controls over financial reporting, the manager responsible for preparing the Company s financial reports up to August 8, 2008 was Enrico Parazzini, and subsequently was Marco Patuano, who replaced Enrico Parazzini as Head of the Finance Administration and Control Function. Afterwards, due to the reorganization of some of the company s managerial positions, on December 2, 2009 the Board of Directors appointed Andrea Mangoni, who had replaced Marco Patuano as Head of the Administration Finance and Control Function, as manager responsible for preparing the Company s financial reports. The powers and responsibilities of this position are specified in a special set of rules which are posted in the Governance section of the Company s website www.telecomitalia.it.

As specified in the Self-Regulatory Code, in implementing the guidelines laid down by the Board of Directors, the Director in charge of internal controls (the Chairman, Gabriele Galateri di Genola) defines the methods and procedures for the configuration of the internal control system and ensures its adaptation to changes in the operational environment and the applicable laws and regulations. The executive directors, each with reference to the matters falling within the scope of his/her duties and in cooperation with the manager responsible for the preparation of the Company s financial reports for matters for which he/she is competent, must use the methods and procedures referred to above to ensure the overall adequacy of the system and its practical effectiveness in a risk-based perspective that is also an essential component in the definition of the agenda of the Board of Directors. In this process the Group Compliance Officer performs a role of liaison and coordination among the various plans for the improvement of the Group s internal control system and is responsible for ensuring support to the management.

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

***Meetings***

The Self-Regulatory Code requires the Board to meet periodically (and at least quarterly).

Through May 6, 2010, in 2010 the Board of Directors has had 4 meetings.

When board meetings are to be held, documentation permitting effective participation in the proceedings is normally provided well in advance. The Company has adopted an ad-hoc procedure governing the flow of information to the members of the Board of Directors and the Board of Auditors. The procedure is intended to provide the non-executive directors and the statutory auditors with the pertinent and relevant information on a continuous basis.

***Appointment of Directors***

As noted above, Telecom Italia s bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders Meeting through a slate system, which is presently mandatory under Italian law.

The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital, can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae

of the candidates) must be filed at the Company s registered office and made available to the public at least fifteen days before the date scheduled for the shareholders meeting on first call. Consob Regulation 11971/1999 requires the Company to make the slates and the accompanying documentation available to the public without delay at its registered office, at Borsa Italiana and on its website www.telecomitalia.it. According to Telecom Italia s bylaws, slates of candidates can be put forward also by the outgoing Board of Directors.

The Board of Directors is elected as follows:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;

- the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be chosen and the results (quotients) obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

The shareholders meeting held on April 14, 2008, established the number of Telecom Italia directors at 15 and appointed the Board for a three-year period. The slate of candidates proposed by Telco S.p.A. obtained the highest number of votes and therefore 12 out of 15 of Telecom Italia s Directors were elected from that slate (Cesar Alierta, Tarak Ben Ammar, Franco Bernabè, Elio Catania, Jean Paul Fitoussi, Gabriele Galateri, Berardino Libonati, Julio Linares Lopez, Gaetano Micicchè, Aldo Minucci, Gianni Mion, Renato Pagliaro); two directors (Paolo Baratta, Roland Berger) were elected from the slate proposed by the Findim Group S.A.; one director (Luigi Zingales) was elected from the slate proposed by a group of institutional shareholders. See: Risks associated with Telecom Italia s ownership chain under Item 3. Key Information 3.1 Risk Factors .

As for the evolution of the composition of the Board in 2009 and up to May 6, 2010, see above Item 6- Directors, Senior Management and Employees .

***Composition***

According to the bylaws, it is up to the shareholders meeting to decide the exact number of Board members within a minimum and a maximum number (from 7 to 19). Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for their eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors qualification. There are no provisions in the Telecom Italia bylaws relating to the retirement of a director under an age limit requirement or a shareholding requirement for director s qualification.

If during the term of the Board of Directors one or more directors cease to hold such position for any reason, the Board of Directors is allowed to appoint replacements by a resolution approved by the Board of Auditors. The directors so appointed will remain in office until the next Shareholders Meeting. As a rule, the replacements finally appointed by the Shareholders Meeting will remain in office for the same term as the other members already in office at the time of their appointments; the Shareholders Meeting may establish a different term of office for them. In the event of replacement of an independent board member, the Appointment and Remuneration Committee is responsible for proposing a

candidate.

Article 5 of the Company s Self-Regulatory Code establishes a cap on the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies. The general rule is that the position of Telecom Italia director is not compatible with directorships or auditorships in more than five companies, other than Telecom Italia subsidiaries or affiliates, when such companies:

- are listed and included in the S&P/MIB index; and/or
- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

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The directorship in Telecom Italia is also considered not compatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, such exceptions to be made public.

***Impact of Shareholders Agreements on the Nomination of Telecom Italia Group s Companies Boards***

Telco is Telecom Italia s main shareholder with an interest of 22.45% in the ordinary share capital. In turn Telco is owned by Intesa San Paolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), companies belonging to the Generali Group (30.58%) and Telefónica S.A. (46.18%).

On the basis of information in the public domain, the shareholders of Telco signed an agreement on April 28, 2007 (subsequently renewed and presently effective up to April 27, 2013) that, among other things, lays down the criteria pursuant to which the board of directors of Telco will approve the list of candidates to be submitted to the shareholders meeting of Telecom Italia for the appointment of the directors of Telecom Italia. The criteria are set out below:

- Telefónica, to the extent holding at least 30% of Telco s share capital, will have the right vis-à-vis the other shareholders to designate two directors of Telecom Italia: (a) to be included as designees for appointment in the board of Telecom Italia in the list presented by Telco, and (b) to the extent feasible, with respect to the substitution of such directors;

- the other shareholders of Telco, to the extent holding at least 50% plus one share of Telco s share capital, will designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on a proportional basis as set out in the shareholders agreement.

The shareholders agreement provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently and specific provisions to this end are foreseen. See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders Agreements .

***Independent Directors***

At least two members of the Board of Directors shall satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors Article. Moreover, Article 5 of the Telecom Italia Self Regulatory Code incorporates by reference the independence criteria set out in the Borsa Italiana s Corporate Governance Code.

To qualify as independent under Borsa Italiana s Corporate Governance Code and the Company s Self-Regulatory Code, Telecom Italia directors should not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders agreements. Specific presumptions are listed in Borsa Italiana s Corporate Governance Code.

The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 5, out of the 15 directors, are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Telecom Italia s Self-Regulatory Code: Paolo Baratta, Roland Berger, Elio Cosimo Catania, Jean Paul Fitoussi and Luigi Zingales. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors.

See Item 16G. Corporate Governance 16.1. Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices .

***Executive Directors and Activities of the Board***

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals of not more than

three months at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

The Board of Directors entrusted the current Chairman (Gabriele Galateri di Genola) and Chief Executive Officer (Franco Bernabè) with the following powers and responsibilities:

- to the Chairman, in addition to legal representation of the Company, as provided for in the bylaws, the following powers:

  supervision of the preparation of the strategic, business and financial plans and their development and implementation;

  supervision of the design of organizational structures;

  supervision of the economic and financial performance;

  responsibility for overseeing the examination of the strategic guidelines for the internal control system;

- to the CEO, in addition to legal representation of the Company, responsibility for the overall governance of the Company and the Group. In particular:

  responsibility for drawing up, submitting to the Board of Directors and subsequently developing and implementing the strategic, business and financial plans;

  the definition of the organizational arrangements;

  all the organizational responsibilities for ensuring the management and development of the business, through the coordination of the organizational aspects not entrusted to the Chairman.

There are no other Telecom Italia executive directors. As of May 6, 2010, Telecom Italia s non-executive directors are: Cesar Alierta Izuel, Paolo Baratta, Tarak Ben Ammar, Roland Berger, Elio Catania, Jean Paul Fitoussi, Julio Linares Lopez, Berardino Libonati, Gaetano Micciché, Aldo Minucci, Renato Pagliaro, Mauro Sentinelli and Luigi Zingales.

As a result of the shareholders agreement providing for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently, Cesar Alierta Izuel and Julio Linares Lopez committed not to take part in any discussion or to vote in matters concerning activities of Telecom Italia or Telecom Italia s subsidiaries in the Brazilian or Argentinian telecommunications markets.

In addition,

- in compliance with the ANATEL Ruling, issued on October 23, 2007 and subsequently on July 7, 2009, since 2007 the Board of Directors of Telecom Italia adopted an ad hoc internal procedure aimed at assuring the segregation of Telecom Italia s activities in Brazil from any potential influence of Telefónica. This procedure was subsequently amended and updated in September 2009;

- On April 28, 2010, the board of the brazilian Antitrust commission (CADE) unanimously approved the acquisition by Telco of an indirect minority shareholding in Telecom Italia occurred in 2007, subject to the simultaneous signing of an agreement (Termo de Compromisso and Desempenho TCD), by and between all the Telco shareholders Mediobanca, Generall, Intesa Sanpaolo and Telefònica and CADE. Tim Brasil executed such agreement exclusively as an Intervening party, on behalf of the Telecom Italia Group since the latter was not formally a party to the antitrust proceeding.

Such agreement, aimed at assuring the effective segregation between the Telefònica and Telecom Italia Groups in relation to their respective operations in Brazil, provides for certain undertakings for all involved parties, including the restrictions already imposed by the Brazilian telecommunication Agency Anatel in its decisions of November 2007 and July 2009 on the Telco Transaction, plus some additional commitments;

- in December 2008 the Board of Directors of Telecom Italia adopted a corresponding internal procedure that formalizes the already existing separation between the activities of the Telecom Italia Group and the Telefónica Group in the Argentine telecommunications market;

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- taking into consideration the contents of the Resolution 04/09 by the Argentine antitrust Authority in February 2009 the Board of Directors of Telecom Italia approved a modification of the governance of Telecom Italia Group with respect to the Argentine market.

See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders Agreements .

***Internal Committees***

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. The Self Regulatory Code foresees three Committees: the Executive Committee, the Nomination and Remuneration Committee, the Internal Control and Corporate Governance Committee.

With regard to the composition, while the Executive Committee consists of the Executive Directors (Chairman and CEO) and of non-executive directors, with the Chairman of the Committee being the Chairman of the Board of Directors, both the Internal Control and Corporate Governance Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent directors, including at least one drawn from a minority list.

***Executive Committee***

The Executive Committee was established on April, 15, 2008 and is composed of Executive Directors (who coordinate the Committee s activity with the management) and non-executive directors. The Committee s Chair is entrusted to the Chairman of the Board of Directors.

The Committee is charged with monitoring the performance of operations at Company and Group level, approving the executive directors proposals for macro organizational arrangements, submitting opinions to the Board on the budget and the strategic, business and financial plans of the Company and the Group and performing any other tasks delegated by the Board of Directors.

***Internal Control and Corporate Governance Committee***

In accordance with Borsa Italiana s Code of Corporate Governance, on which the Company s own Code is modeled, the Committee assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company s financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements.

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their updating;

- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company s financial reports;

- defines the procedures and time limit for conducting the board performance evaluation ; and

- performs the additional tasks that may be assigned to it by the board of directors.

***Nomination and Remuneration Committee***

The Committee is charged with putting forward proposals for the remuneration of the directors who hold particular offices and criteria for the remuneration of the Company s senior management and with the nomination of candidates for the Board of Directors in the event of replacement of an independent board member.

For more information concerning the remuneration of directors and top management see Item 6. Directors, Senior Management and Employees 6.6 Compensation of Directors, Officers and Members of the Board of Auditors .

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***Internal Control System***

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural correctness, transparency and accountability, values that are considered fundamental for Telecom Italia s business dealings, as laid down in the Group Code of Ethics.

The aim of the process is to ensure that the management of the business is efficient and can be verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

The main rules of the Company s internal control system concern:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the tracking of decisions; and
- the management of decision-making processes on the basis of objective criteria.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed.

In addition to the Internal Control and Corporate Governance Committee, the Board uses an entity endowed with an appropriate degree of independence and adequate means to be responsible for the internal control function, that is the consortium company Telecom Italia Audit & Compliance Services. The functions assigned to this entity are to assist in verifying the adequacy and effectiveness of the internal control system and, where weaknesses are found, to propose appropriate remedies. This solution maximizes the independence of the person responsible for internal control from the Company s structures, which reports to the competent director (the Chairman, Gabriele Galateri di Genola), the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

As from 2005 the Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group s internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system.

As regards internal controls over financial reporting, the Company has drawn on the substantial work done in order to comply with US reporting requirements to fulfill the transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance.

The Company s internal control system is completed by the so-called 231 Organizational Model, which provides a paradigm for the conduct of all those who act in the Company s name and on its behalf and is designed to ensure the effective performance of business activity by forestalling situations and behavior that are potentially harmful to the Company. Such Model comprises principles for dealings with governmental bodies (elaborated as a set of rules for relations with representatives of such bodies) and internal control checklists listing:

- the main stages of every process;
- the offences that may be committed in relation to individual processes; and
- the control activities to prevent the related risks from arising.

The 231 Organizational Model is subject to ongoing upgrading. Some revisions are made necessary by changes in the law, while others are proposed when deemed appropriate in the light of the results of the model s application. Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Ferdinando Superti Furga, Chairman), an independent director on the Internal Control and Corporate Governance Committee (Paolo Baratta), the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services and, from November 2009, an external member (presently, Professor Vincenzo Salafia). The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

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In addition, a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

**v Board of Auditors**

***Tasks and role***

The Board of Auditors verifies compliance with the law and the Bylaws and verifies adherence to the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors about the company s business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform the Consob of any irregularity they detect in the course of their duties and are required to attend Shareholders Meetings, Board of Directors meetings and Executive Committee meetings.

In order to make available the broad range of information needed by the Board of Auditors to perform its control function effectively, the Company adopted the Procedure for Information to Directors and Auditors.

In 2009 the Board of Auditors met 28 times; 6 times jointly with the Internal Control and Corporate Governance Committee. In addition, its members participated in the meetings of the Board of Directors and the Executive Committee and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

***Appointment***

Telecom Italia s Board of Auditors is composed of five regular auditors, and four alternate auditors. The Board of Auditors is appointed by the Shareholders Meeting through the slate system under the same procedure used for the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called majority slate (that is a slate that obtained the majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called minority slates .

Pursuant to applicable Italian law, the Chairman of the Board of Auditors is appointed by the shareholders meeting from among the auditors elected from a minority slate .

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

The present Board of Auditors was elected, for a three year term, by the shareholders meeting of April 8, 2009, on the basis of three slates presented respectively by Telco (presently Telecom Italia s largest shareholder), Findim (presently Telecom Italia s second largest shareholder) and by a group of minority shareholders. Salvatore Spiniello, Ferdinando Superti Furga and Gianluca Ponzellini were elected from the majority slate , while Enrico Maria Bignami and Lorenzo Pozza were elected from the minority slates . Enrico Maria Bignami was also appointed as Chairman of the Board.

***Audit Committee***

As described above, the Board of Auditors plays a key role in the Company s system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as Telecom Italia s Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and Telecom Italia s Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;
- the Board of Auditors is not elected by the management of the Company and no executive officer is a member of the Board of Auditors;

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- all of the members of the Board of Auditors meet specific independence requirements from the Company and its Group, the management and the auditing firm, as set forth by Italian legal provisions;

- the Board of Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposal to the shareholders meeting) and oversight of the work of the Company s external auditors engaged for the purpose of issuing the audit report on the annual financial statements;

- the Board of Auditors is authorized to engage independent counsel and other advisers, as it deems appropriate; and

- the Board of Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian law and the obligations deriving from US law, the Board of Auditors adopted a complaints procedure for receiving, retaining and treating the reports it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;

- complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;

- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and

- confidential, possibly anonymous submissions of concerns by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company s website under Governance .

v **Shareholders Meetings**

***Meetings of Ordinary Shareholders***

The following description of rules applicable to shareholders meetings ( **Shareholders Meetings** ) considers the rules in force as of May 6, 2010.

Holders of Ordinary Shares are entitled to attend and vote at ordinary and extraordinary shareholders meetings. At any Shareholders Meeting, each holder is entitled to cast one vote for each Ordinary Share held. Votes may be cast personally or by proxy. Holders of Ordinary Shares can

also vote by mail.

Shareholders Meetings are called by the Company s Board of Directors when required by law or the shareholders or deemed necessary.

Shareholders Meetings must be convened at least once a year. At these ordinary meetings, holders of Ordinary Shares (i) approve the annual accounts, (ii) appoint/revoke directors and auditors and determine their remuneration, when necessary, (iii) vote on other issues defined in the Bylaws, if any, (iv) authorize the completion of the transactions by the directors, if and when the Bylaws call for such previous authorization, it being understood that directors remain directly responsible for the transactions accomplished, (v) adopt rules of procedure for the shareholders meetings (Meeting Regulations). Telecom Italia s Bylaws do not entrust to the ordinary shareholders meeting any additional responsibility according to points (iii) and (iv) above.

It is compulsory for issuers to approve their annual financial statements and publish their annual report within 120 days of the close of their fiscal year.

Extraordinary Shareholders Meetings may be called to pass upon proposed amendments to the Bylaws, capital increases, mergers, dissolutions, issuance of convertible debentures (which can also be delegated to the Board of Directors), appointment of receivers and similar extraordinary actions.

As a rule shareholders are informed of all Shareholders Meetings to be held by publication of a notice in *Gazzetta Ufficiale della Repubblica Italiana* at least 30 days before the date fixed for the meeting. The notice must also be

published in at least one national daily newspaper. The notice of a Shareholders Meeting may specify up to two meeting dates for an ordinary Shareholders Meeting and up to three meeting dates for an extraordinary Shareholders Meeting ( calls ).

An ordinary Shareholders Meeting is duly constituted on first call with the attendance of at least 50% of the outstanding Ordinary Shares, while on second call there is no quorum requirement. In either case, resolutions are approved by holders of the majority of the Ordinary Shares represented at the meeting.

Extraordinary Shareholders Meetings are duly constituted with the attendance of shareholders representing at least one-half or more than one-third or at least one-fifth of the company s ordinary share capital, on the first call, second call and third call, respectively. The favorable vote of at least two-thirds of the Ordinary Shares represented at the meeting is necessary for the resolution approval. Resolutions concerning capital increases with the exclusion or limitation of subscription rights must always be approved by holders of more than 50% of the shares outstanding, irrespective of the call in which the resolution is taken.

To attend any Shareholders Meeting, an ad hoc communication by the authorized intermediary must have been received by the Company at least two days before the meeting takes place. The communication procedure does not involve any blocking of the so called deposited shares: no transfer is required and the shares may be withdrawn at any time. In case of the shares withdrawal, their prior deposit becomes ineffective for purposes of attending the meeting.

Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing ADSs to attend Shareholders Meetings and exercise voting rights with respect to underlying Ordinary Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

As a rule, votes cast in the Shareholders Meeting are open, as the minutes of the meeting are required to evidence how attending shareholders voted.

Shareholders may attend the meeting by proxy using a power of attorney. Any one proxy cannot represent more than 200 shareholders. A proxy may be appointed only for one single meeting (including, however, the first, second and in case of extraordinary meetings third call) and may be substituted only by the person expressly indicated in the form. The proxy can neither be a director, statutory auditor, employee of the company or of one of its controlled subsidiaries, nor a controlled company or the independent auditors of Telecom Italia or shareholders, directors, statutory auditors or employees of such independent auditors.

Votes by proxy may be solicited and collected for the shareholders meetings of listed companies. Proxy solicitation provisions allow individuals (so-called consignors), to promote, through special brokers, the soliciting of votes by proxy at shareholders meetings. The ownership including joint ownership of at least 0.5% of the company s voting share capital (registered in the shareholders register for at least six months) is a requisite for becoming a consignor.

Shareholders associations composed of at least 50 people, each with no more than 0.1% voting share capital, may collect proxies among their group. In order to facilitate such operation among employee shareholders, the Bylaws provides that special spaces will be made available to such shareholders associations where information about solicitation can be made available and proxy collection operations can be carried out.

Ordinary Shareholders may also vote by mail. The vote by mail cannot be cast by proxy. The system is essentially based on the following principles: (a) the notice calling the shareholders meetings must specify that shareholders can vote by mail and must describe the procedures they have to follow; (b) shareholders wishing to vote by mail (to be duly entitled to vote through timely communication to the issuer, as described above) must send the company a special form (so called ballot) made available for such purpose by the issuer, which has to comply with specific Consob requirements; (c) votes cast by mail must be delivered to the company at least 48 hours prior to the Shareholders Meeting; and, finally, (d) votes cast by mail remain valid for the second and third calls of the meeting and can be revoked by a written declaration until the day before the meeting.

The shareholders meetings shall be called when requested by shareholders representing at least 10% of a company s share capital. In the case the directors or in their place the statutory auditors don t call the

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Shareholders Meeting, the Court orders with a decree the call of the Shareholders Meeting, after having heard the directors and statutory auditors, if the refusal is unjustified. Shareholders are not allowed to present requests on topics upon which the Shareholders Meeting resolves, pursuant to Italian law, on directors proposal or on a project basis or on their reports only.

Shareholders representing at least 2.5% of the share capital may request, within five days of the publication of the notice convening the meeting, additions to the agenda, specifying in the request the additional items they propose. Additions to the agenda may not be made for matters on which the shareholders meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report by the Board of Directors. Notice of items added to the agenda following requests by shareholders, as above, shall be given in the same forms prescribed for the publication of the notice convening the meeting.

The Shareholders Meeting on May 6, 2004 adopted a set of Rules of Proceeding, which apply to both Ordinary and Extraordinary meetings, which was amended by the shareholders Meeting of April 16, 2007. The current version of the Rules is posted on the Company s website under Governance .

***Meetings of Savings Shareholders***

Although holders of Savings Shares are not entitled to vote in meetings of holders of Ordinary Shares, they are entitled to attend special meetings of holders of Savings Shares ( **Special Meetings** ) and to appoint a joint representative (the **Joint Representative** ) to represent them, with respect to the Company.

The Joint Representative, who is appointed by the Special Meeting or, in default, by the Court, is entitled (i) to inspect certain corporate books of the Company, (ii) to attend the Shareholders Meetings and (iii) to challenge in court the resolutions adopted by such meetings. The Joint Representative is appointed for a maximum three-year term and, according to the Bylaws, is kept informed by the Company regarding corporate events that can affect the price trend of Savings Shares. The Savings Shareholders Meeting held on May 16, 2007 reappointed Mr. Carlo Pasteris as joint Representative for a three year period which expired with the Ordinary Shareholders Meeting on April 29, 2010 (approval of the Company s financial statements for the year 2009). A Special Meeting of Savings Shareholders is to take place on May, 26, 27 or 28, 2010, respectively on first, second and third call, for the appointment of the new joint Representative.

Special Meetings of Savings Shareholders may be called when deemed necessary or upon request by Savings Shareholders representing at least 1% of the outstanding Savings Shares either by the Joint Representative or by the Company s Board of Directors in order to (a) appoint and revoke the Joint Representative, (b) approve the resolutions of the Shareholders Meetings that may affect the rights of Savings Shares, (c) set up an expense fund for the coverage of costs incurred in protecting rights of the Savings Shareholders, (d) negotiate possible disputes with the Company; and (e) resolve other issues relating to their position as holders of Savings Shares. To adopt resolutions related to (a), (c) and (e) above, a favorable vote of at least 20% of the Savings Shares is required at Special Meetings held on the first call, a favorable vote of at least 10% is required at Special Meetings held on the second call, and a favorable vote of at least a majority of the Savings Shares present is required at Special Meetings held on the third call. To adopt resolutions related to (b) and (d) above, a favorable vote of at least 20% of the Savings Shares is required at all calls of the Special Meetings.

To attend any Special Meeting, an ad hoc communication by an authorized intermediary must have been received by the Company at least two days before the meeting takes place. Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing Savings Share ADSs to attend Special Meetings and exercise voting rights with respect to underlying Savings Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

v **Disclosure**

Transparent relations with the financial markets, and the provision of accurate information are paramount for Telecom Italia Group.

A specific procedure (posted on the Company s website under Governance ) covers the handling including the public disclosure of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial

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instruments, and is addressed to all the members of the governing bodies, employees and outside consultants of Group companies who have potential access to inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements.

With reference to the preparation of the financial statements for 2009, the procedures for the Preparation of the Telecom Italia 2009 annual report for Italian purposes and Telecom Italia 2009 Form 20-F provide for specific mechanisms of upward attestation by the people in charge of the various corporate structures involved in the process of gathering and handling data and drafting the document. This is aimed at giving adequate assurance and support to the senior officers, the Board of Auditors, the Internal control and Corporate Governance Committee and the Board of Directors as a whole in fulfilling their responsibility for oversight of the accuracy and timeliness of required disclosures.

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## 10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

### Foreign Investment and Exchange Control Regulations in Italy

There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities and may export cash, instruments of credit and securities, in both foreign currency and euro, representing interest, dividends, other asset distributions and the proceeds of dispositions without restriction other than those outlined below. There are no limitations on the right of non-resident or foreign beneficial owners to vote their Shares except as provided for all Telecom Italia shareholders by law. See 10.4 Description of Capital Stock Limitations on Voting and Shareholdings .

Reporting and record-keeping requirements are contained in Italian legislation which implements an EU Directive regarding the free movement of capital. Such legislation requires that transfers of cash or bearer bank or postal passbooks or bearer instruments in euro or in foreign currency, effected for whatsoever reason between different parties, shall be carried out by means of authorized intermediaries when the total amount of the value to be transferred is more than 10,000 euros. The threshold referred to above also applies when there is reason to believe that several transactions, effected at different times within a certain period of time, constitute part of a single transaction, even if individually below the threshold amount specified. Whenever the execution of such transactions leads to belief that there are irregularities in their performance, such transactions shall be reported in writing to the Ufficio Italiano Cambi (the Italian Exchange Office) which shall carry out necessary checks. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with the above may result in administrative fines or, criminal penalties, if the transactions fall within a case ruled by the criminal code. The Ufficio Italiano Cambi will maintain records relating to either persons notified of infringements or persons in whose regard a definitive sanction has been issued in its information system for a period which varies depending on the case.

Certain additional procedural requirements are imposed for tax reasons. Non-corporate residents of Italy effecting transfers to and from Italy in excess of 10,000 euros in one year must disclose them in their annual income tax returns. Non-corporate residents must also give details in their income tax returns of financial assets held outside Italy at the end of the fiscal year and of transfers in excess of 10,000 euros to, from, within and between foreign countries in connection with such assets during the fiscal year. No tax return is required in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy. Such disclosure requirements do not apply (i) if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than 10,000 euros or (ii) in respect of foreign investments, foreign assets or transfers within the EU (except for transfer from or to Italy). For corporate residents there is no requirement for such a declaration because their financial statements (on the basis of which their tax returns are prepared) already contain the information.

There can be no assurance that the present regulatory environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

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**10.3 DESCRIPTION OF BYLAWS**

***Object***

Telecom Italia s corporate purpose is described in Article 3 of the Bylaws and consists of:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating telecommunications services and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

***Directors***

There are no provisions in the Bylaws relating to: (1) the power of a director to vote on a proposal in which such director is materially interested, (2) the power of a director to (in the absence of an independent quorum) vote compensation to himself or any member of its body, (3) the power of a director to borrow money from the Company, (4) the retirement of a director under an age limit requirement and (5) the number of shares required for director s qualification.

The Board of Directors grants specific positions to any of its members in compliance with the Bylaws of the company; such positions include, among others, those of Chairman and Managing Director. According to Italian law the remuneration corresponding to such positions is then defined by the Board of Directors in its discretion, after acknowledging the opinion of the Board of Auditors.

There are no provisions in Italian law that govern the issue of directors borrowing money from the company and that set age or shareholding requirements for director s qualification.

***Recent amendments***

The shareholders meeting held on April 29, 2010 amended article 5 of the bylaws as described in 10.4 Description of capital stock .

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**10.4 DESCRIPTION OF CAPITAL STOCK**

As of May 6, 2010, the subscribed and fully paid-up capital stock was equal to 10,673,865,180.00 euros divided into 13,380,906,939 Ordinary Shares and 6,026,120,661 Savings Shares, each with a par value of 0.55 euros.

The Shareholders Meeting of April 7, 2005 resolved to increase the share capital by up to a maximum of 38,655,832.60 euros (at May 6, 2010, 666,906.35 euros), by means of the issue of up to a maximum of 70,283,332 (at May 6, 2010, 1,212,557) Ordinary Shares with a par value of 0.55 euros each, divided into several divisible tranches with a tranche still outstanding of up to a maximum of 3,192,173.05 euros (at May 6, 2010, 666,906.35 euros) for the exercise of the 2003-2005 Stock-Option Plans stock options, increase to be implemented by December 31, 2008 for the first lot, by December 31, 2009 for the second lot and by December 31, 2010 for the third lot by means of the issue of up to a maximum of 5,803,951 (at May 6, 2010, 1,212,557) shares with a par value of 0.55 euros each, to be subscribed for at a total price of euros 5.07 per option held (i.e. at a price of 2.930636 euros for each newly-issued share).

Telecom Italia s Extraordinary Shareholders Meeting of April 8, 2009, revoked the existing mandate to increase the share capital and issue convertible bonds granted to the Board of Directors by the Extraordinary Shareholders Meeting of May 6, 2004, and resolved that for five years starting from April 8, 2009 the Board of Directors may:

- increase the share capital in one or more tranches by up to a maximum total amount of 880,000,000 euros by means of cash issues of up to a maximum of 1,600,000,000 Ordinary Shares, to be offered in whole or in part with the right of pre-emption to persons having entitlement or, including just a part thereof, to employees of the Company and its subsidiaries with the exclusion of the right of pre-emption pursuant to the combined effects of the last paragraph of Article 2441 of the Civil Code and Article 134, paragraph 2 of Legislative Decree 58/1998. Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time;

- issue, in one or more tranches and for up to a maximum of five years from April 8, 2009, convertible bonds up to a maximum amount of 1,000,000,000 euros.

As of May 6, 2010, the aforementioned powers have not been exercised.

The Extraordinary Shareholders Meeting of April 29, 2010, in connection with the 2010-2014 public shareholding plan for employees and the 2010-2015 long-term incentive plan and, more generally, in order to provide the Shareholders Meeting with an additional operational tool, resolved to amend Article 5 of the Bylaws to allow the allocation of profits to the employees of the Company or its subsidiaries through bonus share grants pursuant to Article 2349 of the Italian Civil Code.

The same Extraordinary Shareholders Meeting of April 29, 2010 authorized the Board of Directors by amending Article 5 of the Bylaws to increase share capital:

- in the service of the 2010-2014 public shareholding plan for employees, (i) for cash by issuing a maximum of 31,000,000 Ordinary Shares, pre-emption rights excluded, to be offered for subscription to plan beneficiaries and, subsequently, (ii) in the maximum amount of euro 5,683,333.15 through the allocation of the corresponding maximum amount of profit pursuant to Article 2349 of the Italian Civil Code, by issuing the number of Ordinary Shares required to grant one bonus share per every three shares subscribed for cash;

- in the service of the 2010-2015 long-term incentive plan, (i) for cash by issuing ordinary shares in the maximum amount of euro 5,000,000, pre-emption rights excluded, to be offered for subscription to plan beneficiaries and, subsequently, (ii) in the maximum amount of euro 5,000,000 through the allocation of the corresponding maximum amount of profit pursuant to Article 2349 of the Italian Civil Code, by issuing the number of ordinary shares required to grant one bonus share per each share subscribed for cash.

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**Item 10. Additional Information** **Description of Capital Stock**

***Classes of shares***

According to Italian law, Savings Shares may not be issued for an amount which, including other preferred shares, if any, exceeds one-half of the Company s share capital.

Pursuant to Telecom Italia s Bylaws any reduction in share capital made for the purpose of absorbing losses is applied to the par value of the Ordinary Shares until they have been reduced to zero and only then is the par value of the Savings Shares reduced. If, as a consequence of capital reduction, the Savings Shares exceed half of the Company s share capital, such excess must be eliminated within the following two years.

***Form and Transfer***

The Dematerialization Decree provides for the dematerialization of financial instruments publicly traded on regulated markets, including treasury bonds.

As a result, Ordinary Shares and Savings Shares must be held with Monte Titoli. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli, and beneficial owners of Ordinary Shares and Savings Shares may hold their interests through special deposit accounts with any such participant. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their Ordinary Shares, collect dividends and exercise other rights with respect to those shares through such accounts. Such shares held by Monte Titoli are transferred between beneficial owners by appropriate instructions being given to the relevant participants associated with Monte Titoli to debit the account with the bank of the vendor and to credit the account with the bank of the purchaser.

Voting rights relating to Ordinary Shares and Savings Shares that have not been deposited with Monte Titoli may be exercised only by depositing them with an authorized intermediary. The Company may act as an intermediary for its own shares.

Each person owning a beneficial interest in Ordinary Shares and Savings Shares held through Euroclear or Clearstream must rely on the procedures of Euroclear or Clearstream, respectively, and of institutions that have accounts with Euroclear or Clearstream to exercise any rights of a holder of shares. Holders may request Euroclear or Clearstream to transfer their Ordinary Shares and Savings Shares to an account of such holder with a participant of Monte Titoli, in which case such holders may transfer their shares, collect dividends and exercise other shareholder rights through that participant. Any such transfer through that participant is not subject to Italian transfer tax if non-Italian parties are involved. See 10.6 Taxation .

***Dividend Rights***

Holders of Savings Shares are entitled each year to a distribution with respect to such year s net income in the amount up to 5% of the par value of their shares. If with respect to any year a lesser amount is paid, the entitlement to payment of the shortfall is carried over for two successive years. In the event that dividends are paid to holders of Ordinary Shares, holders of Savings Shares have a preferential right to receive a dividend per share that is higher by 2% of its par value than the dividend per Ordinary Share.

In case the net income is insufficient, the Annual Ordinary Shareholders meeting is allowed to satisfy the aforementioned preferential rights by distributing reserves, when available.

***Subscription Rights***

New Ordinary Shares and/or Savings Shares may be issued pursuant to a resolution of holders of Ordinary Shares at any extraordinary Shareholders Meeting.

Pursuant to Italian law, shareholders (including holders of Savings Shares) are entitled to subscribe for new issues of Ordinary Shares and/or Savings Shares, debentures convertible into Ordinary Shares and/or Savings Shares and rights to subscribe for Ordinary Shares and/or Savings Shares in proportion to their respective shareholdings.

As a rule, subject to certain conditions principally designed to prevent dilution of the rights of shareholders, subscription rights may be waived or limited by resolutions taken by an extraordinary Shareholders Meeting with

the affirmative vote of holders of more than 50% of the Ordinary Shares outstanding. This majority is required at the first, second and third call. On the other hand, according to the Bylaws the subscription rights can be excluded by the extraordinary Shareholders Meeting in the amount of 10% of the pre-existent share capital with no special quorum requirement, on condition that the subscription price is equal to the shares market price and this is confirmed in the proper independent auditors report.

Shareholders can adopt a resolution, at an extraordinary Shareholders Meeting, to convert available reserves into additional share capital. In such case, either the par value of all outstanding shares is identically raised or the shares resulting from the increase in share capital are allocated to the shareholders in proportion to their ownership before the increase without further contribution or payment from the shareholder.

***Liquidation Rights***

Subject to the satisfaction of all other creditors, holders of Ordinary Shares are entitled to a distribution in liquidation.

Holders of Savings Shares and preferred shares, if any, are entitled to a preferred right to distribution from liquidation up to their par value. No liquidation dividend is payable to the holders of other classes of shares until such preferential right has been satisfied in full. Thereafter, in case of surplus assets, holders of all classes of shares rank equally in the distribution of such surplus assets. Shares rank *pari passu* among themselves in a liquidation.

***Purchase of Ordinary Shares or Savings Shares by the Company***

The Company may purchase its own Ordinary Shares or Savings Shares subject to certain conditions and limitations. Such purchases must be authorized by a Shareholders Meeting and made only out of retained earnings or distributable reserves as shown on the most recent financial statements approved by the Shareholders Meeting. The par value of the Ordinary Shares or Savings Shares purchased by the Company, including the Ordinary Shares or Savings Shares, if any, held by the Company s subsidiaries, may not exceed 10% of the Company s share capital. The Company may purchase its own Ordinary Shares or Savings Shares:

- by means of a tender offer;
- on regulated markets in accordance with trading methods laid down in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;
- by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules lay down methods for the purchase and sale of such instruments that (i) do not permit the direct matching of buy orders with predetermined sell orders and (ii) ensure the easy participation of investors in the trading of such derivative instruments used for buybacks;

- by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders meeting authorizing the share purchase programme.

Before entering into transactions aimed at the purchase of its own shares other than by means of a tender offer (which in Italy is governed by specific disclosure requirements), the Company must disclose to the public all the details of the share purchase programme.

Ordinary Shares or Savings Shares purchased and held by the Company or one of its subsidiaries may be disposed of only pursuant to a resolution of the Company s or, if applicable, its subsidiary s shareholders meeting.

As a rule, neither the Company nor any company under its control may vote or subscribe for new Ordinary Shares or Savings Shares of the Company, but the shareholders meeting may authorize the exercise of subscription rights. If no such authorization is granted, the subscription rights accrue to the other holders so long as such Ordinary Shares or Savings Shares are held by the Company or a company under its control. The Ordinary Shares or the Savings Shares, as long as they are owned by the Company, are not entitled to receive dividends.

As of May 6, 2010, Telecom Italia owns 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

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**Item 10. Additional Information** **Description of Capital Stock**

***Reporting Requirements and Restrictions on Acquisitions of Shares***

Pursuant to Italian securities regulations any acquisition or sale of an interest in excess of 2%, 5%, 7.5%, 10% and all higher multiples of five, in the voting shares of a listed company, must be notified to the listed company and to Consob within five trading days (defined as days on which Borsa Italiana is open) following the acquisition or sale. Consob must make such information public within three trading days from the notification.

For purposes of the disclosure requirements referred above: (i) a person s holding must include both the shares owned by such person, even if the voting rights belong or are assigned to third parties, and the shares whose voting rights belong or are assigned to such person; (ii) a person s holding shall also include both the shares owned by nominees, trustees or subsidiary companies and the shares of which the voting rights belong or are assigned to such persons; (iii) shares registered in the names of or endorsed to trustees and those whose voting rights are assigned to an intermediary in connection with collective or individual portfolio management services are not to be attributed to the persons controlling the trustee or the intermediary.

For the purposes of the disclosure requirements for 5%, 10%, 25%, 50% and 75% thresholds, the calculation of holdings shall also include issued and subscribed shares that a person may buy or sell on his own initiative, either directly or through nominees, trustees or subsidiary companies. Shares that may be acquired by exercising conversion rights or warrants shall be included in the calculation only if the acquisition can be made within sixty days.

Shareholder agreements concerning the voting shares of a listed company must be notified to Consob, published in abridged form in the daily press and filed with the Company Register of the place where the company has its registered office if they provide for duties of consultation before voting, set limits on the transfer or provide for the purchase of the relevant shares, have as their object or effect the exercise of a dominant influence on the company, aim to encourage or frustrate a takeover bid or equity swap, including commitments relating to non-participation in a takeover bid. The same rule applies when the shareholder agreements concern the shares issued by a non-listed company that controls a listed company. The notification must include the share ownership of all parties filing it.

When listed companies change their share capital, they must notify Consob and Borsa Italiana of the amount of the share capital and the number and classes of shares into which it is divided. Consob and Borsa Italiana must make the information available to the public no later than the day following the notification. The notification shall be made no later than the day following the event causing such modification or the day following the filing of the amended Bylaws.

In accordance with Italian antitrust laws and regulations, the Antitrust Authority is required to prohibit acquisitions of sole or joint control over a company that would create or strengthen a dominant position in the domestic market or a significant part thereof. However, if the acquiring party and the company to be acquired operate in more than one Member State of the EU and exceed certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission. See Item 4. Information on the Telecom Italia Group 4.3 Regulation .

***Limitations on Voting and Shareholdings***

There are no limitations imposed by Italian law or by the Bylaws of Telecom Italia on the rights of non-residents of Italy or foreign persons to hold or vote the Shares other than those limitations resulting from the special powers of the State, which apply equally to all owners of Shares, Italian and foreign alike.

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## 10.5 DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

Following the Merger, Olivetti as the surviving company changed its name to Telecom Italia S.p.A. , succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. Telecom Italia completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia has entered into two Deposit Agreements among the Company, JPMorgan Chase Bank, as depositary, and the registered Holders from time to time of ADRs issued thereunder. The first such Deposit Agreement, dated as of July 17, 2003, provides for the deposit of Ordinary Shares in registered form, par value 0.55 euros each and the issuance of the Ordinary Share ADSs; the second such Deposit Agreement, also dated as of July 17, 2003 provides for the deposit of Savings Shares in registered form, par value 0.55 euros each and the issuance of the Savings Share ADSs. Because these agreements are otherwise substantially identical, such agreements (including all exhibits and amendments thereto) are referred to herein as the Deposit Agreement , deposited Shares as well as deposited Savings Shares are referred to as Shares , and the Ordinary Share ADSs or Savings Share ADSs, as the case may be, are referred to as the ADSs . The following is a summary of the material provisions of the Deposit Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary in New York (the Principal New York Office ), which is presently located at 4 New York Plaza, New York, New York 10004. Terms used herein and not otherwise defined shall have the respective meanings set forth in the Deposit Agreement.

ADRs evidencing ADSs are issuable by the Depositary pursuant to the terms of the Deposit Agreement. Each ADS represents, as of the date hereof, the right to receive 10 Ordinary Shares (in the case of each Ordinary Share ADS) or 10 Savings Shares (in the case of each Savings Share ADS) in each case deposited under the Deposit Agreement (together with any additional Ordinary Shares deposited thereunder and all other securities, property and cash received and held thereunder at any time in respect of or in lieu of such deposited Ordinary Shares, the Deposited Securities ) with the Custodian, currently the Milan office of BNP Paribas (together with any successor or successors thereto, the Custodian ). An ADR may evidence any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and the Company as Holders.

### Deposit, Issuance, Transfer and Withdrawal

In connection with the deposit of Ordinary Shares under the Deposit Agreement, the Depositary or the Custodian may require the following in form satisfactory to it: (a) a written order directing the Depositary to issue or execute and deliver to, or upon the written order of, the person or persons designated in such order an ADR or ADRs evidencing the number of ADSs representing such Deposited Securities (a Delivery Order ); (b) proper endorsements or duly executed instruments of transfer in respect of such Deposited Securities; and (c) instruments assigning to the Custodian or its nominee any distribution on or in respect of such Deposited Securities until the Ordinary Shares are registered in the name required by the Depositary or indemnity therefore. As soon as practicable after the Custodian receives Deposited Securities pursuant to any such deposit or pursuant to any distribution upon Deposited Securities or change affecting Deposited Securities, the Custodian shall present such Deposited Securities for registration of transfer into the name of the Custodian or its nominee, to the extent such registration is practicable, at the cost and expense of the person making such deposit (or for whose benefit such deposit is made) and shall obtain evidence satisfactory to it of such registration. Deposited Securities shall be held by the Custodian for the account and to the order of the Depositary at such place or places and in such manner as the Depositary shall determine. The Depositary agrees to instruct the Custodian to place all Ordinary Shares accepted for deposit into a segregated account separate from any Ordinary Shares of the Company that may be held by such Custodian under any other depositary receipt facility relating to the Ordinary Shares. Deposited Securities may be delivered by the Custodian to any person only under the circumstances expressly contemplated in the Deposit Agreement. To the extent that the provisions of or governing the Shares make delivery of certificates therefore impracticable, Ordinary Shares may be deposited by such delivery thereof as the Depositary or the Custodian may reasonably accept, including, without limitation, by causing them to be credited to an account maintained by the Custodian for such purpose with the Company or an accredited intermediary, such as a bank, acting as a registrar for the Ordinary Shares, together with delivery of the documents, payments and Delivery Order referred to herein to the Custodian or the Depositary. Neither the Depositary nor the Custodian shall lend Deposited Securities.

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After any such deposit of Ordinary Shares, the Custodian shall notify the Depositary of such deposit and of the information contained in any related Delivery Order by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. After receiving such notice from the Custodian (or such other evidence as the Company may accept), the Depositary, subject to the Deposit Agreement, shall properly issue or execute and deliver, as the case may be at the transfer office of the Depositary (the Transfer Office ), to or upon the order of any person named in such notice, an ADR or ADRs registered as requested and evidencing the aggregate ADSs to which such person is entitled. ADSs may be issued in certificated form or through the direct registration system utilized by the Depositary pursuant to which the Depositary may record the ownership of ADRs without the issuance of a certificate, which ownership shall be evidenced by periodic statements issued by the Depositary to the Holders entitled thereto.

Subject to the terms of the Deposit Agreement, the Depositary may so issue ADRs for delivery at the Transfer Office only against deposit with the Custodian of: (a) Ordinary Shares in form satisfactory to the Custodian; (b) rights to receive Ordinary Shares from the Company or any registrar, transfer agent, clearing agent or other entity recording Share ownership or transactions; or (c) other rights to receive Shares (until such Shares are actually deposited pursuant to (a) or (b) above, Pre-released ADRs ) only if (i) Pre-released ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities held by the Depositary for the benefit of Holders (but such collateral shall not constitute Deposited Securities), (ii) each recipient of Pre-released ADRs agrees in writing with the Depositary that such recipient (a) owns such Shares, (b) assigns all beneficial right, title and interest therein to the Depositary, (c) holds such Shares for the account of the Depositary and (d) will deliver such Shares to the Custodian as soon as practicable and promptly upon demand therefore and (iii) all Pre-released ADRs evidence not more than 20% of all ADSs (excluding those evidenced by Pre-released ADRs) provided; however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for Pre-released ADRs and its charges for issuance thereof. At the request, risk and expense of the person depositing Shares, the Depositary may accept deposits for forwarding to the Custodian and may deliver ADRs at a place other than its office. Shares or evidence of rights to receive Shares may be deposited through (x) electronic transfer of such Shares to the account maintained by the Custodian for such purpose at Monte Titoli S.p.A., (y) evidence satisfactory to the Custodian of irrevocable instructions to cause such Shares to be transferred to such account or (z) delivery of the certificates representing such Shares. If use of the Monte Titoli book-entry system in connection with the Shares is discontinued at any time for any reason, the Company shall make other book-entry arrangements (if any) that it determines, after consultation with the Depositary, are reasonable. Every person depositing Shares under the Deposit Agreement represents and warrants that such Shares are validly issued and outstanding, fully paid, non assessable and free of pre-emptive rights, that the person making such deposit is duly authorized so to do and that such Shares (A) are not restricted securities as such term is defined in Rule 144 under the Securities Act of 1933 unless at the time of deposit they may be freely transferred in accordance with Rule 144(k) and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of ADRs.

Subject to the terms and conditions of the Deposit Agreement, upon surrender of (i) a certificated ADR in form satisfactory to the Depositary at the Transfer Office or (ii) proper instructions and documentation in the case of a Direct Registration ADR, the Holder is entitled to delivery at the Custodian s office of the Deposited Securities at the time represented by the ADSs evidenced thereby. At the request, risk and expense of the Holder of an ADR, the Depositary may deliver such Deposited Securities at such other place as may have been requested by the Holder.

**Distributions on Deposited Securities**

Subject to the terms and conditions of the Deposit Agreement, to the extent practicable, the Depositary will distribute to each Holder entitled thereto on the record date set by the Depositary therefore at such Holder s address shown on the ADR Register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by ADSs evidenced by such Holder s ADRs:

· *Cash.* Any U.S. dollars available to the Depositary resulting from a cash dividend or other cash distribution or authorized portion thereof ( Cash ), on an averaged, if possible, or other practicable

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basis, subject to appropriate adjustments for (i) taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain Holders, and (iii) deduction of the Depositary s expenses in (1) converting any foreign currency to U.S. dollars by sale or in such other manner as the Depositary may determine to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

- *Shares.* (i) Additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares (a Share Distribution ) and (ii) U.S. dollars available to it resulting from the net proceeds of sales of Shares received in a Share Distribution, which Shares would give rise to fractional ADSs if additional ADRs were issued therefore, as in the case of Cash.

- *Rights.* (i) *Warrants* or other instruments in the discretion of the Depositary after consultation with the Company, to the extent practicable, representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities ( Rights ), to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same (the Company has no obligation to so furnish such evidence), or (ii) to the extent the Company does not so furnish such evidence and sales of Rights are practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Rights as in the case of Cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the non- transferability of the Rights, limited markets therefore, their short duration or otherwise, nothing (and any Rights may lapse).

- *Other Distributions.* (i) Securities or property available to the Depositary resulting from any distribution on Deposited Securities other than Cash, Share Distributions and Rights ( Other Distributions ), by any means that the Depositary may deem equitable and practicable, or (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Other Distributions as in the case of Cash. Such U.S. dollars available will be distributed by checks drawn on a bank in the United States for whole dollars and cents (any fractional cents being withheld without liability for interest and added to future Cash distributions).

To the extent that the Depositary determines in its discretion that any distribution is not practicable with respect to any Holder, the Depositary, after consultation with the Company, may make such distribution as it so deems practicable, including the distribution of foreign currency, securities or property (or appropriate documents evidencing the right to receive foreign currency, securities or property) or the retention thereof as Deposited Securities with respect to such Holder s ADRs (without liability for interest thereon or the investment thereof).

There can be no assurance that the Depositary will be able to effect any currency conversion or to sell or otherwise dispose of any distributed or offered property, subscription or other rights, Shares or other securities in a timely manner or at a specified rate or price, as the case may be.

**Disclosure of Interests**

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Holders and all persons holding ADRs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in the Depositary s compliance with any Company instructions in respect thereof, and the Depositary will use

reasonable efforts to comply with such Company instructions.

**Record Dates**

The Depositary shall, to the extent necessary, after consultation with the Company, if practicable, fix a record date (which shall be as near as practicable to any corresponding record date set by the Company) for the

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determination of the Holders who shall be entitled to receive any distribution on or in respect of Deposited Securities, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Holders at the close of business on such record date shall be so entitled.

**Voting of Deposited Securities**

Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of Shares the Depositary will, unless otherwise instructed by the Company, promptly thereafter, distribute to all Holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to applicable provisions of Italian law and of the Company s Certificate of Incorporation and Bylaws (any such provisions, if material, will be summarized in such notice), to instruct the Depositary as to the exercise of voting rights, if any (subject to compliance by such Holder with the requirements described below) pertaining to the number of Shares represented by their respective ADSs, (iii) if applicable, a statement as to the manner in which such Holders may request a proper communication to the issuer attesting that beneficial ownership of the related Shares is in the name of the Holders and therefore enabling them to exercise voting rights with respect to the Shares represented by their ADSs without the use of ADS proxy cards, (iv) if applicable, an ADS proxy card pursuant to which such Holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such ADS proxy card, and (v) such other information, including any such modification to the foregoing procedures as agreed between the Depositary and the Company.

Upon receipt by the Depositary of a properly completed ADS proxy card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and the Company s Certificate of Incorporation and Bylaws, to vote or cause to be voted the Shares underlying such ADRs in accordance with any nondiscretionary instructions set forth in such ADS proxy card. The Depositary will not vote or attempt to exercise the right to vote that attaches to Shares underlying such ADRs other than in accordance with such instructions.

A Holder desiring to exercise voting rights with respect to the Shares represented by its ADSs without the use of an ADS proxy card may do so by (A) depositing its ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such Holder, the number of ADSs represented by ADRs held by such Holder and any other information required in accordance with Italian law or the Company s Certificate of Incorporation and Bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a communication for such meeting, which gives notice to the Company of such Holder s intention to vote the Shares underlying its ADRs. By giving the instructions set forth under point (B) above, Holders will be deemed to have authorized the Custodian to prohibit any transfers of the related Shares for the blocked period.

A precondition for the issue of the communication for a specific meeting by the Custodian may be that beneficial ownership of the related Shares has been in the name of the Holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of the Company s Certificate of Incorporation and Bylaws.

Under Italian law, shareholders at shareholders meetings may modify the resolutions presented for their approval by the Board of Directors. In such case Holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

When the Company makes its annual accounts available at its offices in connection with a general meeting of shareholders at which a vote will be taken on such accounts, the Company will deliver to the Depositary and the Custodian copies of such accounts. Until such meeting, the Depositary will make available copies of such accounts for inspection at the office of the Depositary in New York (the Transfer Office ), the office of the Custodian in Milan, Italy and any other designated transfer offices.

In the Deposit Agreement, the Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable Holders to vote the Shares underlying their ADRs.

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**Inspection of Transfer Books**

The Deposit Agreement provides that the Depositary or its agent will keep books at its Transfer Office for the registration, registration of transfer, combination and split-up of ADRs, and, in the case of Direct Registration ADRs, shall include the Direct Registration System which at all reasonable times will be open for inspection by the Holders and the Company for the purpose of communicating with Holders in the interest of the business of the Company or a matter relating to the Deposit Agreement.

**Reports and Other Communications**

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Deposited Securities and made generally available to the holders of Deposited Securities, are available for inspection by Holders at the offices of the Depositary and the Custodian and at the Transfer Office. The Depositary will mail copies of such communications (or English translations or summaries thereof) to Holders when furnished by the Company.

On or before the first date on which the Company makes any communication generally available to holders of Deposited Securities or any securities regulatory authority or stock exchange, by publication or otherwise, the Company shall transmit to the Depositary a copy thereof in English or with an English translation or summary. The Company has delivered to the Depositary and the Custodian, a copy of all provisions of or governing the Shares (other than copies of Italian law) and any other Deposited Securities issued by the Company or any affiliate of the Company, if any, and, promptly upon any change thereto, the Company shall deliver to the Depositary and Custodian, a copy (in English or with an English translation) of such provisions (other than copies of Italian law) as so changed.

**Changes Affecting Deposited Securities**

Subject to the terms of the Deposit Agreement and the ADRs, the Depositary may, in its discretion, amend the ADRs or distribute additional or amended ADRs (with or without calling ADRs for exchange) or cash, securities or property on the record date set by the Depositary therefore to reflect any change in par value, split-up, consolidation, cancellation or other reclassification of Deposited Securities, any Share Distribution or Other Distribution not distributed to Holders or any cash, securities or property available to the Depositary in respect of Deposited Securities from (and the Depositary is hereby authorized to surrender any Deposited Securities to any person and to sell by public or private sale any property received in connection with) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all the assets of the Company, and to the extent the Depositary does not so amend the ADRs or make a distribution to Holders to reflect any of the foregoing, or the net proceeds thereof, whatever cash, securities or property results from any of the foregoing shall constitute Deposited Securities and each ADS evidenced by ADRs shall automatically represent its pro rata interest in the Deposited Securities as then constituted.

**Amendment and Termination of Deposit Agreement**

The ADRs and the Deposit Agreement may be amended by the Company and the Depositary, provided that any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that shall otherwise prejudice any substantial existing right of Holders, shall become effective 30 days after notice of such amendment shall have been given to the Holders. Every Holder of an ADR at the time any amendment to the Deposit Agreement so becomes effective shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement and the ADRs as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. Any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for (a) the ADSs to be registered on Form F-6 under the Securities Act of 1933 or (b) the ADSs or Shares to be traded solely in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Holders, shall be deemed not to prejudice any substantial rights of Holders. Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of ADR

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to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the ADR at any time in accordance with such changed rules. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance.

Upon any resignation of the Depositary which does not become effective during the earlier of (i) 90 days from the date of the Depositary shall have resigned as such and (ii) the date on which the Company shall have appointed a successor depositary or on any removal of the Depositary pursuant to the Deposit Agreement, the Depositary may, and shall at the written direction of the Company, terminate the Deposit Agreement and this ADR by mailing notice of such termination to the Holders at least 30 days prior to the date fixed in such notice for such termination. After the date so fixed for termination, the Depositary and its agents will perform no further acts under the Deposit Agreement and this ADR, except to receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn. As soon as practicable after the expiration of six months from the date so fixed for termination, the Depositary shall sell the Deposited Securities and shall thereafter (as long as it may lawfully do so) hold in a segregated account the net proceeds of such sales, together with any other cash then held by it under the Deposit Agreement, without liability for interest, in trust for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary shall be discharged from all obligations in respect of the Deposit Agreement and this ADR, except to account for such net proceeds and other cash. After the date so fixed for termination, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents.

**Charges of Depositary**

The Depositary may charge each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions, and each person surrendering ADSs for withdrawal of Deposited Securities, U.S.$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. In addition, the Depositary may charge Holders, a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities (for purposes hereof treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Holders entitled thereto. The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) and (v) such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary s or its Custodian s compliance with applicable law, rule or regulation (see Item 12D. American Depositary Shares ).

**Liability of Holders for Taxes**

If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to an ADR, any Deposited Securities represented by the ADSs evidenced thereby or any distribution thereon, such tax or other governmental charge shall be paid by the Holder thereof to the Depositary. The Depositary may refuse to effect any registration, registration of transfer, split-up or combination or, only for those reasons set forth in General Instruction I.A.(1) of Form F-6 under the Securities Act, any withdrawal of Deposited Securities until

such payment is made. The Depositary may also deduct from any distributions on or in respect of Deposited Securities, or may sell by public or private sale for the account of the respective Holder any part or all of such Deposited Securities (after attempting by reasonable means to notify the Holder thereof prior to such

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sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge, the respective Holder remaining liable for any deficiency, and shall reduce the number of ADSs evidenced thereby to reflect any such sales of Shares.

In connection with any distribution to Holders, the Company or its agents will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Company or its agents; and the Depositary and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by the Depositary or the Custodian. The Depositary shall forward to the Company or its agent such information from its records as the Company may request to enable the Company or its agent to file necessary reports with governmental authorities or agencies. If the Depositary determines that any distribution in property other than cash (including Shares or rights) on Deposited Securities is subject to any tax that the Depositary or the Custodian is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes, by public or private sale, and the Depositary shall distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes to the Holders entitled thereto.

The Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described herein) to enable persons that are considered United States residents for purposes of applicable law to receive any rebates, tax credits or other benefits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. Notwithstanding the above, the Company may, by written notice to the Depositary, modify or withdraw the procedures described in this paragraph (including by ceasing to pay to the Depositary any amounts in respect of refunds of Italian withholding taxes), to the extent the Company determines that its participation in the refund process is no longer lawful or practical.

See 10.6 Taxation for additional information on tax issues relating to ADRs.

**General Limitations**

The Depositary, the Company, their agents and each of them shall: (a) incur no liability (i) if any present or future law, regulation, the provisions of or governing any Deposited Securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or this ADR provides shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or this ADR; (b) assume no liability except to perform its obligations to the extent they are specifically set forth in this ADR and the Deposit Agreement without gross negligence or bad faith; (c) in the case of the Depositary and its agents, be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR; (d) in the case of the Company and its agents hereunder be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required; or (e) not be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary, its agents and the Company may rely and shall be protected in acting upon any written notice, request, direction or other document believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties. The Depositary and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such act or omission to act is in good faith), for the manner in which any such vote is cast or for the effect of any such vote. The Depositary and its agents may own and deal in any class of securities of the Company and its affiliates and in ADRs. Neither the Company, the Depositary nor any of their respective agents shall be liable to Holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages.

Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or, subject to the last sentence of this paragraph, the withdrawal of any Deposited Securities, and from time to time, in the case of clause (b)(ii) of this paragraph, the Company, the Depositary or the Custodian may require: (a) payment with respect thereto of (i) any stock transfer or other tax or other

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governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges; (b) the production of proof satisfactory to it of (i) the identity and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement. The Depositary shall provide to the Company, promptly upon its written request, copies of any such proofs of citizenship or residence or other information referred to in (b) above so requested. The issuance of ADRs, the acceptance of deposits of Shares, the registration, registration of transfer, split-up or combination of ADRs or, subject to the last sentence of this paragraph, the withdrawal of Deposited Securities may be suspended, generally or in particular instances, when the ADR register or any register for Deposited Securities is closed or when any such action is deemed necessary or advisable by the Depositary or the Company. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the withdrawal of Deposited Securities may be restricted only for the reasons set forth in General Instruction I.A.(1) of Form F-6 (as such instructions may be amended from time to time) under the Securities Act.

**Governing Law**

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York.

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## 10.6 TAXATION

Unless otherwise indicated, for purposes of the following discussion regarding taxation, the Ordinary Shares and the Savings Shares are collectively referred to as the Telecom Italia Shares .

### 10.6.1 Italian Taxation

The following is a summary of material Italian tax consequences of the ownership and disposition of Ordinary Shares, Savings Shares or ADRs as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Shares, Savings Shares or ADRs. For purposes of Italian law and the Italian-U.S. Income Tax Convention (the **Treaty** ), holders of ADSs which are evidenced by ADRs will be treated as holders of the underlying Shares or Savings Shares, as the case may be. The 1999 Treaty between Italy and U.S. entered into force and took effect for taxable periods beginning on or after January 1, 2010. In respect of tax withheld at the source (such as withholding tax on dividends) the 1999 Treaty is effective for amounts paid or credited in or after February 1, 2010. A grandfathering clause allows a person entitled to greater relief under the 1984 Treaty to elect to apply the 1984 Treaty in its entirety for a 12-month period from the date on which the provisions of the 1999 Treaty have had effect.

***Income Tax***

Dividends paid to holders of Savings Shares and applicable ADRs who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 12.5% withholding tax.

Dividends paid to holders of Ordinary Shares and applicable ADRs who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 27% withholding tax.

All shares of Italian listed companies have to be registered in a centralized deposit system. With respect to dividends paid in connection with shares held in the centralized deposit system managed by Monte Titoli, such as Telecom Italia Shares, instead of the 27% or 12.5% withholding taxes mentioned above, a substitute income tax will apply at the same tax rates as the above-mentioned withholding taxes. This substitute income tax is levied by, and under the responsibility of, the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system. With respect to any dividends paid within the above mentioned centralized deposit, Telecom Italia assumes no responsibility for the withholding of tax at the source (and application of tax treaties, as stated below) as such responsibility lies entirely on the Italian authorized intermediaries with whom the securities are deposited.

Non-resident holders of Ordinary Shares and applicable ADRs have the right to recover within 48 months from the date of payment of the Italian substitute income tax, up to four-ninths of such 27% substitute tax on their dividend income, upon providing adequate evidence, certified by the tax authorities in their home country, that they paid a corresponding amount of income tax in their home country on the same dividend income.

These refunds are normally subject to extensive delays. In addition, these refunds are an alternative to seeking any relief from double taxation under an income tax treaty, including the Treaty.

U.S. resident beneficial owners of Ordinary Shares and ADRs may be entitled to a reduced tax rate on their dividends under the Treaty. Where a U.S. resident owner: (i) qualifies for the benefits of the Treaty and meets all the requirements of the Treaty provision dealing with limitation on benefits, (ii) is the actual beneficial owner of the dividends, and (iii) the dividends paid are not connected with a permanent establishment in Italy through which the U.S. resident owner carries on a business or with a fixed base in Italy through which the U.S. resident owner performs independent personal services, the Treaty generally provides that Italian taxes cannot exceed 15% of the gross amount of the dividend (this 15% rate may be reduced to 5% when the beneficial owner of the dividends is a U.S. company which has owned at least 25 percent of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared).

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To obtain the reduced tax rate afforded by the Treaty, a beneficial owner of Shares or ADRs must provide, before the dividend is paid (usually, according to the intermediary instructions), the intermediary with which the shares are deposited and which participates in the Monte Titoli system with the following:

(i) a declaration by the beneficial owner containing all the data identifying such person as the beneficial owner and establishing the existence of all the conditions necessary for the application of the Treaty; and

(ii) in the case of a U.S. holder, a certification (Form 6166) issued by the U.S. Internal Revenue Service that states that the beneficial owner is a U.S. resident for tax purposes. The certification is valid until March 31 of the year following the submission.

The processing of requests for certification by the U.S. Internal Revenue Service may take a substantial period of time. Accordingly, in order to be eligible for the procedure described below, eligible ADR holders should begin the process of obtaining Form 6166 as soon as possible after receiving instructions from the Depositary on how to claim the reduced rate provided by the Treaty.

The Depositary s instructions, which will be sent to all ADR holders before the dividend payment date, will specify certain deadlines for delivering to the Depositary any documentation required to obtain the reduced rate provided by the Treaty, including the certification that the eligible ADR holders must obtain from the U.S. Internal Revenue Service. In the case of ADRs held through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depositary. In all other cases, the eligible ADR holders should deliver the required documentation directly to the Depositary.

If the holder of Ordinary Shares or ADRs fails to obtain the reduced rate provided by the Treaty at the time the dividend is paid, a refund equal to the difference between the Treaty rate and the Italian 12.5% or 27% substitute tax, applied at the payment of dividends, may be claimed directly from the Italian tax authorities. Extensive delays have been encountered by U.S. residents seeking payments directly from the Italian authorities.

In the case of dividends derived by a U.S. partnership, the reduction of the tax rate under the Treaty is only available to the extent such dividends are subject to U.S. tax in the hands of the partners.

The Italian Budget Law for 2008 (Law No. 244 of December 24, 2007) introduced, among other provisions, some changes regarding dividends paid to non-residents. According to these new rules, the Italian withholding tax rates of 12.5% or 27%, currently levied on dividends paid to non-residents, are reduced to 1.375%, provided that the beneficial owner of the dividends:

- is subject to corporate income tax in its home State country; *and*
- is resident in another Member State of the European Union or of the European Economic Area listed in the New White List to be issued by the Ministry of Finance pursuant to the (new) Article 168-*bis* of the Italian Tax Code (see below).

It follows that such rate reduction is not available for non-resident individuals or entities not subject to corporate taxation, regardless of where they are located.

Non-resident holders who paid the Italian substitute tax at the rate of 1.375% have no right to recover the four-ninths of such tax, as would otherwise be available to non-resident holders of Ordinary Shares.

The new rate applies to a distribution of profits that have been realized in tax periods starting on or after January 1, 2008. On November 19, 2009, the European Court of Justice finally ruled (C-540/07) that making dividends distributed to companies established in other European Union Member States subject to a withholding tax rate more disadvantageous than the tax regime applied to dividends distributed to resident (i.e., Italian) companies is in breach of European Union principles (free movement of capital). According to the above-mentioned decision, since Italian domestic legislation only removed this different treatment on dividends paid out of profits that have been realized in tax periods beginning on or after January 1, 2008, the reduced tax rate of 1.375% could also be applicable (within the terms of the statute of limitations as in force in Italy and to the extent retroactive refund claims are available) to dividends paid to companies established in other European Union Member States, out of profits realized in tax periods beginning before January 1, 2008.

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A new ministerial decree will be issued and will provide a new list of States and territories allowing an adequate exchange of information with the Italian tax authorities (i.e. the **New White List** ). It should differ from the existing white list, as the new provision refers to the existence of an effective exchange of information.

The above provision will become effective as from the tax period following the one when such ministerial decree will be enacted. Transitional provisions are provided. Until the effectiveness of the new provisions, reference has to be made to the States and territories currently listed in the Decree of the Ministry of Finance dated as of September 4, 1996, as modified by subsequent Ministerial Decrees (the latest one being the Decree of the Ministry of Finance dated as of December 14, 2000).

***Transfer Tax***

No transfer tax is due upon the transfer of shares and securities under Italian laws since Italian transfer tax formerly provided for by the Royal Decree No. 3278 of 30th December, 1923, as amended and supplemented by the Legislative Decree No. 435 of November 21, 1997 has been abolished starting from December 31, 2007.

Following the repeal of the Italian Transfer tax, contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarized deeds are subject to fixed registration tax at a rate of 168 euros; (ii) private deeds are only subject to registration tax in case of use or voluntary registration.

***Capital Gains Tax***

Under Italian law, capital gains tax ( **CGT** ) is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. For the purposes of CGT, the exchange of shares under a merger or de-merger of Italian companies does not constitute a disposal of shares. In such transactions, the tax value and the holding period of the exchanged shares is carried over to the shares received in the exchange. Capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies whose shares or ADSs are listed on a stock exchange and resident in Italy for tax purposes (as is the case for Telecom Italia are not subject to CGT.

A qualified shareholding consists of securities (except for Saving Shares and applicable ADRs) that (i) entitle the holder to exercise more than 2% of the voting rights of a company with shares listed on a stock exchange (Telecom Italia is such a company) in the ordinary meeting of the shareholders or (ii) represent more than 5% of the share capital of a company with shares listed on a stock exchange (Telecom Italia is such a company). A non-qualified shareholding is any shareholding that does not meet the above mentioned requirements to be qualified as a qualified shareholding .

The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period.

Pursuant to the Treaty, a U.S. resident will not be subject to Italian CGT on a sale of qualified shareholdings unless the Telecom Italia Shares or ADRs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell Telecom Italia Shares or ADRs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty provisions have been satisfied if CGT would otherwise be applicable.

***Inheritance and Gift Tax***

The transfers of any valuable asset (including Shares, Savings Shares and ADRs) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

(i) transfers in favour of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4% on the value of the inheritance or the gift exceeding 1,000,000 (per beneficiary);

(ii) transfers in favour of brothers and sisters are subject to an inheritance and gift tax applied at a rate of 6% on the value of the inheritance or the gift exceeding 100,000 (per beneficiary). The same tax rate applies in favour of handicapped individuals on the value of inheritance or gift exceeding 1,500,000 (per beneficiary);

(iii) transfers in favour of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6% on the entire value of the inheritance or the gift;

(iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8% on the entire value of the inheritance or the gift.

With respect to listed Shares, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued during the interim). With respect to unlisted Shares, the value for inheritance and gift tax purposes is determined by reference to the value of listed debt securities having similar features or based on other certain elements.

There is currently no gift tax convention between Italy and the United States.

### 10.6.2 United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Telecom Italia Shares or ADSs representing Telecom Italia Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person s decision to hold the securities. This discussion applies only to a U.S. Holder that holds Telecom Italia Shares or ADSs as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder s particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special treatment, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding Telecom Italia Shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Telecom Italia Shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including an individual retirement account or Roth IRA ;

- persons that own or are deemed to own ten percent or more of voting stock of Telecom Italia;

- persons who acquired Telecom Italia Shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or

- persons holding Telecom Italia Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Telecom Italia Shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Telecom Italia Shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Telecom Italia Shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code ), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

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**Item 10. Additional Information** **Taxation**

A U.S. Holder is a holder who, for U.S. federal income tax purposes, is a beneficial owner of Telecom Italia Shares or ADSs who is eligible for the benefits of the Treaty and is:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary ( pre-release ), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Italian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Telecom Italia Shares or ADSs in their particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, as described below.

***Taxation of distributions***

Distributions made with respect to the Telecom Italia Shares or ADSs (other than certain pro rata distributions of Telecom Italia Shares or ADSs), including any Italian tax withheld, will generally constitute foreign source dividend income for U.S. federal income tax purposes to the extent such distributions are made from the Company s current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Because the Company does not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. If you are a non-corporate U.S. Holder, subject to applicable limitations that may vary depending on your particular circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to you in taxable years beginning before January 1, 2011 may be taxable at a maximum tax rate of 15%. Non corporate U.S. Holders should consult their own tax advisers to determine whether they are subject to any special rules that may limit their ability to be taxed at this favorable rate. If you are a corporate U.S. Holder you will not be entitled to claim a dividends-received deduction for dividends paid on the Telecom Italia Shares or ADSs. The amount of any cash distribution paid in euros, including the amount of

any Italian tax withheld, will be included in your income in an amount equal to the U.S. dollar value of such euros on the date of receipt by the Depositary, in the case of U.S. Holders of ADSs, or by the U.S. Holder, in the case of U.S. Holders of Telecom Italia Shares, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of its receipt. Gain or loss, if any, recognized on the sale or other disposition of such euros will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations and restrictions and the discussion above regarding concerns expressed by the U.S. Treasury, Italian taxes withheld from distributions on Telecom Italia Shares or ADSs at a rate not in excess of that provided in the Treaty will be eligible for credit against a U.S. Holder s U.S. federal income tax liability. Italian taxes withheld in excess of the rate provided in the Treaty will generally not be eligible for credit against a U.S. Holder s U.S. federal income tax liability (See Section 10.6.1 Italian Taxation Income Tax for a discussion of

how to obtain the Treaty withholding rate). Instead of claiming a credit, you may, at your election, deduct such Italian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. You should consult your tax adviser concerning the foreign tax credit implications of the payment of any Italian withholding taxes.

***Taxation of capital gains***

A U.S. Holder will generally recognize U.S. source capital gain or loss on the sale or other disposition of Telecom Italia Shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder held the Telecom Italia Shares or ADSs for more than one year. The amount of gain or loss will be equal to the difference between the amount realized and the U.S. Holder s adjusted tax basis in the Telecom Italia Shares or ADSs in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

***Passive Foreign Investment Company Rules***

The Company believes that it was not a passive foreign investment company ( **PFIC** ) for U.S. federal income tax purposes for 2009. However, since PFIC status depends upon the composition of the Company s income and assets and the market value of the Company s assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were treated as a PFIC for any taxable year during which a U.S. Holder held Telecom Italia Shares or ADSs, certain adverse tax consequences could apply to the U.S. Holder.

***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

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**10.7 DOCUMENTS ON DISPLAY**

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at the website www.sec.gov.

Our ADSs are listed on the New York Stock Exchange under the symbol TI . You may inspect any periodic reports and other information filed with or furnished to the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Italian securities commission and the Italian stock exchanges, and we file reports and other information relating to our business, financial condition and other matters with the Italian securities commission and the Italian stock exchanges. You may read such reports, statements and other information, including the annual and biannual financial statements, at the public reference facilities maintained in Milan or at the website www.borsaitaliana.it. Some of our Italian securities commission filings are also available at the website maintained by the Italian securities commission at the website www.consob.it.

As described elsewhere in this Annual Report, certain reports, statements and presentations related to Telecom Italia can be found on our website at www.telecomitalia.it.

We have appointed JPMorgan Chase Bank, N.A. to act as depositary for our ADSs. JPMorgan Chase Bank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of our ADSs. Any record holder of our ADSs may read such reports and communications or summaries thereof at JPMorgan Chase Bank s office located at 4 New York Plaza, New York, New York 10004.

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Item 11. Quantitative And Qualitative Disclosures About Market Risks

**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

With regard to the quantitative and qualitative disclosures about market risks, please see the Note Financial Risk Management of the Notes to the Consolidated Financial Statements included elsewhere herein, which provides:

- the objectives and the policies for the management of the financial risks of Telecom Italia Group, and
- the sensitivity analyses of the market risks we are exposed to.

The above mentioned Note should be read in conjunction with the Note Accounting Policies , Note Derivatives and Note Supplementa Disclosures on Financial Instruments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, which provide other information relating to financial instruments.

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Item 12. Description Of Securities Other Than Equity Securities

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12A. DEBT SECURITIES**

Not applicable.

**Item 12B. WARRANTS AND RIGHTS**

Not applicable.

**Item 12C. OTHER SECURITIES**

Not applicable.

**Item 12D. AMERICAN DEPOSITARY SHARES**

***Description of fees and charges paid by ADR Holders***

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement between JP Morgan Chase Bank, as depositary (the **Depositary** ), Telecom Italia S.p.A. and Holders of American Depositary Receipts dated as of July 17, 2003, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company s ADR Program, which amounts are payable to the Depositary.

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**Item 12. Description Of Securities Other Than Equity Securities**

| Category of Service | Depositary Actions | Associated Fee |
|---|---|---|
| a) Deposit of underlying shares or surrender of ADRs | Each person to whom ADSs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions.(1) | US$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. |
| | Each person surrendering ADRs for the withdrawal of deposited securities. | |
| b) Cash dividends or distributions | Distribution of cash resulting from a cash dividend or other cash distribution. | Subject to deduction of Depositary s expenses in (i) converting foreign currency to US dollars by sale or such other manner considered reasonable by the Depositary (ii) transferring the foreign or US dollars to the United States and (iii) obtaining any license or approval of any governmental authority required for such conversion or transfer. |
| c) Distribution of securities | Distribution of securities (the fee being an amount equal to the fees for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities). | US$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. |
| d) Expenses of the Depositary | Expenses incurred on behalf of Holders in connection with: | |
| | i) Stock transfer or other taxes and other governmental charges. | As necessary. |
| | ii) Cable, telex and facsimile transmission and delivery. | US$20.00 per transaction. |
| | iii) Expenses of the Depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency) | As necessary. |
| | iv) Such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary s or its Custodian s compliance with applicable law, rule or regulation. | As necessary. |

(1) The Depositary may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

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**Item 12. Description Of Securities Other Than Equity Securities**

***Direct and indirect payments made by J.P. Morgan to Telecom Italia in relation to the Company s ADR program***

J.P. Morgan, as Depositary, has agreed to reimburse the Company for reasonable expenses incurred related to the Company s ADR Program including legal fees, investor relations servicing, investor relations presentations, broker reimbursements, ADR related advertising and public relations, accountant s fees and other bona fide third party expenses. In 2009 the Depositary reimbursed the Company in the amount of US$1,300,000, all of which was used to cover accounting fees incurred in connection with the preparation of the 2008 Form 20-F.

***Indirect payments***

As part of its service to the Company, J.P. Morgan has agreed to waive fees in the aggregate of US$215,000 for the standard costs associated with the administration of the ADR Program. Such costs include fees and expenses related to (1) general services (administration of the ADR Program, administration of ADR holders accounts, maintenance of the ADR registry and other general services), services related to distribution of dividends and other cash distributions and tax and regulatory compliance services (waiver of US$150,000); (2) services related to the annual meeting (waiver of US$15,000); and (3) services to investor relations such as market updates, quarterly newsletters and market research (waiver of US$50,000). The expenses J.P. Morgan agreed to waive in 2009 amounted to US$215,000.

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Item 13. Defaults, Dividend Arrearages And Delinquencies

**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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Item 14. Material Modification to the Rights Of Security Holders And Use Of Proceeds

## Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

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Item 15. Controls And Procedures Overview

## Item 15. CONTROLS AND PROCEDURES

### Overview

On February 23, 2010 the Order was served on Telecom Italia Sparkle which alleges that a number of former directors, former employees and current employees of Telecom Italia Sparkle committed crimes of cross-border criminal conspiracy, tax evasion, international money-laundering, reinvestment of profits from criminal activities, and registering assets under false names. Due to the ongoing criminal investigation and the issuance of the Order, on February 24, 2010 we announced that we were postponing the approval of our financial statements, due to be approved by our Board of Directors on February 25, 2010.

The Telecom Italia Sparkle case relates to events that the Company previously disclosed in its Annual Report on Form 20-F for 2007, including that in 2007 there was an investigation by the Rome Prosecutors into certain alleged VAT fraud claims against a number of Italian telecommunications operators. As described elsewhere in this Annual Report, based on an internal investigation conducted at the time and advice from external tax consultants, the Company believed that it had properly accounted for VAT and related deductions of VAT. It also disclosed at the time that it had terminated commercial relationships with certain of the suppliers and counterparties that were identified in connection with the initial investigation by the Rome Prosecutor. Until the Company received the Order on February 23, 2010, there had been no formal communications between the Rome Prosecutors and the Company after 2007. Italian law does not allow disclosure to any one of any information acquired by a public prosecutor using rights, powers and means available solely to magistrates until completion of the investigation. In addition to taking steps to terminate such relationships, the Company also implemented a number of steps to strengthen its internal controls. Such remediation steps are described in detail below. Notwithstanding the foregoing, following receipt of the Order and Telecom Italia Sparkle conducting its own independent investigation in 2010 (the Independent Investigation ), the Company concluded that certain transactions that occurred only during the period 2005-2007 were without substance resulting in errors as defined in IAS 8. As a result, the Company has determined the financial statement effect resulting from these matters and restated prior period financial statements to correct errors as defined in IAS 8 arising out of the transactions explained above recorded in 2005-2007, as described in Item 5 *Operating and Financial Review and Prospects* 5.1 *Restatement due to Errors* and Note 3 *Restatement as a result of errors and changes in accounting policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. The Company, taking into account the results of the above-mentioned independent investigation and restatement of the Consolidated Financial Statements included elsewhere in this Annual Report, believes that despite the identified material weakness described below, the consolidated financial statements included in this Form 20-F comply with IFRS.

Under Section 404 of the Sarbanes-Oxley Act, management is required to include an internal control report as part of each annual report on Form 20-F. The report must affirm the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting and contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting. In connection with implementation of the requirements of Section 404, the SEC issued initial rules and regulations and, in September 2007, issued further interpretive guidance (the SEC Guidance ) regarding the required assessment of the effectiveness of internal control over financial reporting. In addition to the SEC guidance, the Public Company Accounting Oversight Board (U.S.) ( PCAOB ) issued its own revised auditing standard No. 5, Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements ( PCAOB AS-5 ). PCAOB AS-5 established audit standards for a company s accountants to audit a company s assessment of its effectiveness of internal controls over financial reporting. Both the SEC Guidance and PCAOB AS-5 set out specific criteria and definitions of material weakness and significant deficiency and how a company should evaluate its internal controls over financial reporting. Such comprehensive set of rules and regulations provides a different approach to assessing internal controls than the comparable rules and regulations under Italian law.

As a result of the annual evaluation of internal control over financial reporting, in accordance with the comprehensive rules and regulations and SEC Guidance, management has identified the following material weakness in internal control over financial reporting as of December 31, 2009: in connection with the alleged VAT fraud claim, a material weakness originating in prior years has been identified in the design and operation of controls over the identification and accumulation of reliable information necessary to appropriately and objectively evaluate potential material loss contingencies arising out of suspected fraudulent tax schemes, as well

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as to account for the related liabilities including relevant financial statement disclosure. This material weakness resulted in a material loss reserve being established in connection with the Group s VAT and related liabilities at December 31, 2009 and restatement of our consolidated financial statements for prior periods to correct errors as defined in IAS 8 arising out of transactions recorded in 2005-2007.

This conclusion has also affected management s analysis of the Company s disclosure controls and procedures. The Company applied compensating procedures and processes to support the reliability of financial reporting and related disclosure in fiscal year 2009 as described below.

**15.1. DISCLOSURE CONTROLS AND PROCEDURES**

The Company, under the supervision of the Company s Chief Executive Officer and Chief Financial Officer including the Financial Disclosure Support Group (made up of managers from the Administration Finance and Control, the Human Resources and Organization, and the legal departments, together with the following representatives of Telecom Italia Audit and Compliance Services: the Compliance Division and the IT Risk & Security Governance), according to the Company s 404 Process guidelines (revised also to meet the reporting requirements set forth by article 154-bis of the Italian Legislative Decree 58/1998; the aforementioned Italian rule provides for a special report by the Chief Executive Officer and the Chief Financial Officer of the issuer) performed an evaluation of the effectiveness of the Company s disclosure controls and procedures as of December 31, 2009. The Company s management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management s control objectives.

As further described below, following receipt of the Order and in accordance with the SEC Guidance, management identified a material weakness in internal control over financial reporting, which is an important part of disclosure controls and procedures. Based on the foregoing, the Company s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company s disclosure controls and procedures were not effective as of December 31, 2009 to achieve their intended objectives.

In view of the foregoing, the Company applied compensating procedures and processes that go beyond the Company s routine procedures to support the reliability of financial reporting and related disclosure. Such additional procedures and processes included the Independent Investigation that included the use of external legal and accounting advisors that conducted a documentary investigation for the period 2005-2009. Accordingly, management believes that the consolidated financial statements and related disclosure included in this report fairly present in all material respects the Company s financial condition, results of operations and cash flows as of, and for, the periods presented in this report.

**15.2. MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company s Chief Executive Officer and Chief Financial Officer and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures for the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company s assets that could have a material effect on the financial statements.



**Item 15. Controls And Procedures**

**Disclosure Controls And Procedures**

**Management s Annual Report On Internal Control Over Financial Reporting**

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, the Company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework.

As defined by the SEC, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

According to the SEC Guidance, the following are factors which constitute indicators of a material weakness in internal control over financial reporting: the restatement of previously issued financial statements to reflect the correction of a material misstatement and the identification of a material misstatement of financial statements in the current period in circumstances that indicate that the misstatement would not have been detected by the company s internal control over financial reporting.

Following the definition and guidance of the SEC, the Company s management have identified the following material weakness in internal control over financial reporting: in connection with the alleged VAT fraud claim, a material weakness originating in prior years has been identified in the design and operation of controls over the identification and accumulation of reliable information necessary to appropriately and objectively evaluate potential material loss contingencies arising out of suspected fraudulent tax schemes, as well as to account for the related liabilities including relevant financial statement disclosure. This material weakness resulted in a material loss reserve being established in connection with the Group s VAT and related liabilities at December 31, 2009 and restatement of our consolidated financial statements for prior periods to correct errors as defined in IAS 8 arising out of transactions recorded in 2005-2007. We have therefore concluded that our internal control over financial reporting was not effective as of December 31, 2009.

Reconta Ernst & Young S.p.A., the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2009. Their attestation report on internal control over financial reporting appears below.



**Item 15. Controls And Procedures**

**Management s Annual Report On Internal Control Over Financial Reporting**

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**Item 15. Controls And Procedures**

**Report of Independent Registered Public Accounting Firm**

To the Shareholders of Telecom Italia S.p.A.

We have audited the accompanying consolidated statements of financial position of Telecom Italia S.p.A. and subsidiaries as of December 31, 2009 and 2008 and January 1, 2008, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telecom Italia S.p.A. and subsidiaries at December 31, 2009 and 2008 and January 1, 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

As discussed in Note 3 to the consolidated financial statements, the 2007 and 2008 consolidated financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Telecom Italia S.p.A. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 20, 2010 expressed an adverse opinion thereon.

Milan, Italy

May 20, 2010

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32

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Item 15. Controls And Procedures Investigations And Remediation Activities

In Response To Telecom Italia Sparkle Case

**15.3. INVESTIGATIONS AND REMEDIATION ACTIVITIES IN RESPONSE TO TELECOM ITALIA SPARKLE CASE**

***Internal Investigation 2007 and Remediation Activities***

In November 2006, the Rome Judge that issued the Order interviewed a number of Telecom Italia Sparkle officials, directors and employees in connection with the Prosecutor s investigation of a VAT fraud alleged to have been committed by a number of telecommunications operators in Italy, including the clients and suppliers identified in the Order. Soon after Telecom Italia became aware of the judicial investigation, in January 2007 Telecom Italia Sparkle, at the request of Telecom Italia, launched an internal investigation into contracts and commercial relations with these particular clients and suppliers. On completion of the internal investigation, in June 2007, commercial relations with the above-mentioned parties were terminated. As part of the investigation, and with the assistance of independent tax consultants, Telecom Italia assessed its VAT position and particularly the tax paid with regard to the above-mentioned commercial transactions. The full extent of the alleged VAT fraud was not detected at the time, due in part to the material weakness described above, and as a result, the conclusion of the investigation was that deduction of VAT on these purchases remained appropriate.

Following the internal investigation that was conducted in 2007 and as part of its ongoing development of its internal controls, the Company took a number of steps to strengthen its internal controls over financial reporting. Such remediation activity principally related to:

(i) the acceptance and activation of new customers;

(ii) the continuance of existing customers, including critical analysis of revenues generated by such customers through analysis of traffic trends; and

(iii) the performance of controls to prevent or detect local management override in the operation of its internal controls and processes and monitoring-related entity-level controls over subsidiaries.

The Company s internal control system is supplemented by the 231 Organizational Model established in accordance with legislative decree 231/01 ( Law 231 ). Law 231 was originally adopted in Italy to implement the OECD Convention to fight corruption of foreign public officials in cross border transactions and subsequently amended to implement in Italy EU directives, including the directive relating to money laundering. Pursuant to Law 231, companies are required to establish internal processes and procedures intended to prescribe the conduct of those who act in a company s name and on its behalf. Such processes and procedures are intended to prevent crimes like those contemplated by Law 231, including, corruption (including dealings with government officials), money laundering and criminal conspiracy.

*Remediation activities with respect to (i) the acceptance and activation of new customers and (ii) the continuance of existing customers, including critical analysis of revenues generated by such customers through analysis of the traffic trends:*

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in 2007, Telecom Italia Sparkle adopted the Operating Procedure Control for High Value Unit Service , whose purpose was to ensure a targeted monitoring report on high unit cost traffic, that could be more easily affected by anomalous phenomena. Telecom Italia Sparkle also introduced a specific process for the monitoring of bank clearance procedures for the payment/settlement of invoices that, since the adoption of this operating procedure control, is permitted only in the country of residence/registered office of the supplier. This process also requires monitoring on a quarterly basis of the international payment transactions through the compilation of specific check lists. Such check lists are also required as part of the 231 Organizational Model and in compliance with Law 231. According to this procedure, and in compliance with Law 231, the chief financial officer of Telecom Italia Sparkle is required to report on a quarterly basis all exceptions related to settlements made in countries other than the supplier s residence, and those exceptions have to be formally authorized by the chief executive officer of Telecom Italia Sparkle;

- in 2008, the risk assessment of the Telecom Italia Group to prevent the risk of handling and laundering stolen money was updated and the Operating Procedure Price Voice was amended by the introduction of policies for the pricing of voice services and their management in the Group s systems; accordingly, the internal control system was integrated with respect to these risks which, since late 2007, were considered a chargeable offense and for which the Company has administrative responsibility in accordance with Law 231;

- in 2009, Telecom Italia Sparkle adopted new processes for the identification and management of abnormal traffic and fraud detection activities based on both internal detection procedures and on reports of third

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parties and development of daily reports on possible anomalies in traffic (volumes, times, numbers called); further, the internal control scheme Prevention of fraud by telephone traffic , was introduced. In the same year the Group adhered to the Cooperation agreement among inter-operators issued by the Italian telecommunication operators to combat fraud; this procedure, part of a specific memorandum of understanding among the telecommunication operators, establishes certain criteria to regulate the economic treatment of calls to non geographic numbers.

*Remediation activities with respect to (iii) the performance of controls to prevent or detect local management override in the operation of its internal controls and processes and monitoring-related entity-level controls over subsidiaries*:

- beginning in 2007, the Telecom Italia Group s internal audit department performed a number of periodic investigations to examine various aspects of internal control processes of Telecom Italia Sparkle and its major subsidiaries, and the segregation of duties among employees and officers at such subsidiaries, including among others sales and purchases, quality of services, related party transactions, management of credit and bad debts;

- in November 2008 the Group enhanced, in compliance with the Group s Code of Ethics, the whistleblower procedure, its documentation and communication processes; and

- in December 2008 the commercial compliance, compliance management, regulatory compliance and IT Risk & Security Governance departments were transferred from the operating units to the Group s internal audit department.

***Review and Investigations Following Receipt of Order***

Following receipt of the Order and review of the new information included therein, the Board of Directors of Telecom Italia Sparkle appointed an independent third party to carry out an analysis of the internal control system under Italian rules and regulations at Telecom Italia Sparkle and its Organizational Model 231.

The preliminary report of the appointed independent third party ( Report ) confirmed that the internal control system under Italian laws and regulations and the Organizational Model 231 were effective. In addition, the main purpose of the Report s analysis was to identify enhancements to the internal control system and to the Organizational Model 231 deemed necessary, in accordance with best corporate practices, to render the same more efficient, to the maximum possible extent, so as to prevent activities similar to those under investigation by the Rome Prosecutors. The Report suggested some possible enhancements in the following areas: (i) corporate governance; (ii) internal organization and control; (iii) operational procedures; and (iv) Organizational Model 231. Telecom Italia Sparkle s Board of Directors approved such enhancements at its Board of Directors meeting held on May 10, 2010 with the intent to complete implementation within two months thereafter.

The Report was prepared for, and presented to, the Rome Court in connection with a proposal of the Rome magistrates to appoint an administrator to manage the affairs of Telecom Italia Sparkle. Following delivery of this Report and other documentation made available by Telecom Italia Sparkle, the Court concluded it was not necessary to proceed with such appointment.

In addition to the appointment of the independent third party to prepare the Report, the Independent Investigation was conducted by engaging independent external legal and accounting advisors to conduct a documentary investigation for the period 2005-2009. Voice traffic data and the relative costs and revenues were analyzed for the years 2005-2009, with particular focus on Telecom Italia Sparkle. The inquiries were carried out over a period of about five weeks and concluded in time to allow the release of Telecom Italia Group s consolidated financial statements

(including information on Telecom Italia Sparkle and its subsidiaries) as provided by Italian law on April 12, 2010.

The findings of the Independent Investigation were presented to the Group s Board of Statutory Auditors and Board of Directors and taken into account in connection with the Board of Directors approval, on April 12, 2010, of the Group s consolidated financial statements.

For further details of the specific findings of the 2010 Internal Investigation, please see Item 5 *Operating and Financial Review and Prospects* 5.1 *Restatement due to errors*.



**Item 15. Controls And Procedures**

**Investigations And Remediation Activities In Response To Telecom Italia Sparkle Case**

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Drawing upon information available under the Order (as described above, Italian law does not allow disclosure to any one of any information acquired by a public prosecutor using rights, powers and means available solely to magistrates until completion of the investigation) along with data acquired as part of the Internal Investigation, the Company concluded that a number of transactions in the financial years 2005, 2006 and 2007 were affected by certain anomalies such that certain transactions and traffic were without substance, and, in addition, there were certain anomalies relating to the destination and routing of traffic, to such an extent that the company now believes that these transactions resulted in errors as defined under IAS 8. Therefore, in compliance with IAS 8, we have restated prior period consolidated financial statements as described in Item 5 *Operating and Financial Review and Prospects 5.1 Restatement due to errors* and Note 3 *Restatement as a result of errors and changes in accounting policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. Reconta Ernst & Young S.p.A. has issued an unqualified opinion on the Consolidated Financial Statements included herein.

Telecom Italia s management also concluded that deficiencies had existed in its internal controls, particularly in the design of its internal controls over customer acceptance and continuance, controls in monitoring of telecom traffic and related revenue recognized, controls designed to prevent or detect local management override in the operation of its internal controls and processes as well as in the operation of Telecom Italia s monitoring-related entity-level controls over its subsidiary, Telecom Italia Sparkle. These control deficiencies represented material weaknesses in the Company s internal control over financial reporting which, as described under Internal Investigation 2007 and Remediation Activities above, management believes were remediated prior to December 31, 2009.

In addition to the investigations and remediation described above, the following factors are also relevant when considering the Telecom Italia Sparkle case and the related restatement of financial statements:

- Since the end of 2007 the Company has continued to improve and enhance its code of ethics, with a number of changes in August 2008 including, among others, requirements that parties to contracts with Telecom Italia comply with Telecom Italia s code of ethics and further changes in February 2009. The Company s new management team (following the change in shareholder structure) has continued to emphasize the Company s commitment to ethical standards, transparency, responsibility, financial reporting integrity and no tolerance for illegal behaviour. This commitment has been, and will continue to be communicated to and reinforced with each Group employee.

- As of December 31, 2009 none of the senior management identified in the Order were still in senior management positions at Telecom Italia Sparkle and those managers that were still at Telecom Italia Sparkle (and have since been either suspended or, for those imprisoned, their employment relationship terminated) did not have a significant role in financial reporting.

- As described above, the Company has implemented remediation steps to address certain control deficiencies identified in 2007 which it has now concluded represented material weaknesses in internal control over financial reporting. Although the Company has concluded, as described above, that based on the new information it received after the end of the reporting period as a result of the Order that errors were made and therefore prior year consolidated financial statements required restatement, the errors identified all originated in the 2005-2007 period and the steps taken since 2007 have remediated such material weaknesses in internal control over financial reporting except as reported above.

**Remediation Plan**

Since receipt of the Order management has been actively engaged in the design and implementation of remediation efforts to address the material weakness originating in prior years relating to the design and operation of controls over the identification and accumulation of reliable information necessary to appropriately and objectively evaluate potential material loss contingencies arising out of suspected fraudulent tax schemes, as well as to account for the related liabilities, including relevant financial statement disclosure.

In pursuit thereof, a specific procedure for evaluating potential material loss contingencies arising out of suspected fraudulent tax schemes will be implemented. This procedure will involve the establishment of a special committee (the **Special Committee** ) chaired by the Chief Financial Officer of Telecom Italia Group and composed of senior managers of Administration, Finance and Control (including the Tax Department), the General



**Item 15. Controls And Procedures**

**Investigations And Remediation Activities**

**In Response To Telecom Italia Sparkle Case**

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Counsel and representatives of TI Audit and Compliance Services, Human Resources & Organization, Domestic Market Operations and Technology and Operations. The Special Committee will meet quarterly in connection with the preparation of quarterly and annual financial statements in order to identify issues, if any, on a real-time basis, or as often as required.

The Special Committee s mandate will include, among others:

- procedures and processes to ensure that all available information relating to suspected fraudulent tax schemes is provided to the Special Committee;
- the right to request and accumulate additional information in order for the Special Committee to evaluate potential material loss contingencies arising out of suspected fraudulent tax schemes;
- authorization to instruct the various departments of the Group to obtain appropriate reliable information relating to such matters; and
- ensuring that the information collected is objectively considered and analyzed so that the Special Committee can reasonably conclude that any such material loss contingencies are appropriately accounted for in the Company s consolidated financial statements.

The Group will set up a specific Entity Level Control to test, evaluate and monitor the effectiveness of the Special Committee.

The Company s management expects that the actions described above and resulting improvements in its controls will strengthen its internal control over financial reporting and will address the material weakness identified as of December 31, 2009.

**Changes in Internal Control Over Financial Reporting**

Except as described above, there has been no change in the Company s internal control over financial reporting that occurred during fiscal year 2009, which have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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Item 16A. Audit Committee Financial Expert

Item 16B. Code Of Ethics And Conduct

**Item 16. [RESERVED]**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Auditors in office as of May 6, 2010 determined that each of its members is an audit committee financial expert as defined in Item 16A of Form 20-F. For the names of the members of the Board of Auditors, see Item 6 Directors, Senior Management and Employees 6.3 Board of Auditors .

**Item 16B. CODE OF ETHICS AND CONDUCT**

On March 23, 2004, Telecom Italia adopted its Code of Ethics and Conduct which applies among the others to the Chairman, the Chief Executive Officer, the Chief Financial Officer, as well as to all the Group s employees in and outside Italy; the suppliers of the Company are required to accept and apply it, too. The Code of Ethics and Conduct has subsequently been amended from time to time by the Board of Directors, which acted on the basis of opinions by the Internal Controls and Corporate Governance Committee and the Board of Statutory Auditors, in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices. The Code of Ethics and Conduct in force is available on Telecom Italia s website at www.telecomitalia.it. See also under Item 16G. Corporate Governance 16.1.1 Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices and Item 10 Additional Information 10.1 Corporate Governance .

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Item 16C. Principal Accountant Fees And Services

## Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young served as Telecom Italia s primary independent auditors from the year ended December 31, 2001 to the year ended December 31, 2009.

Ernst & Young means Reconta Ernst & Young S.p.A., the auditor of the Company, as well as all the Italian and foreign entities belonging to the Ernst & Young Global Network.

The following table sets forth the aggregate fees for professional services and other services rendered by Ernst & Young in 2009 and 2008.

| Type of Fees | For the fiscal year ended December 31, 2009 | 2008 |
|---|---|---|
| | (thousands of euros) | |
| Audit Fees(1) | 12,918 | 12,642 |
| Audit-related Fees(2) | 1,659 | 2,370 |
| **Total** | **14,577** | **15,012** |

(1) Audit fees consisted of fees billed for professional services in connection with Telecom Italia s annual financial statements, reviews of interim financial statements as well as comfort letters issued in relation to capital market transactions, agreed upon procedures for certain financial statement areas, agreed upon procedures required under regulations in Italy and abroad for certain transactions (such as merger and acquisitions) and technical Accounting Consultations.

(2) Audit-related fees consisted of fees billed for professional services rendered in connection with assurance and related services not included under Audit Fees .

### Audit Committee s Pre-Approval Policies and Procedures

The Board of Auditors (also in its role as Telecom Italia s Audit Committee), in accordance with and to the extent permitted by applicable Italian law, is responsible for the appointment, retention and oversight of the work of the Company s external auditors engaged for the purpose of issuing the audit report on the annual financial statements. To this effect, the Board of Auditors makes a reasoned proposal to the Shareholders Meeting which appoints the external auditors and determines their compensation. The three-year period 2007-2009 audit engagement conferred to Reconta Ernst & Young S.p.A. by the Telecom Italia Shareholders Meeting on April 16, 2007 came to an end with the issuance by Reconta Ernst & Young S.p.A. of its audit report on the financial statements of Telecom Italia for the year ended December 31, 2009. Under the applicable Italian rules and regulations governing the appointment of independent auditors for listed companies, such engagement was no longer renewable to Reconta Ernst & Young S.p.A. and, as a result, the Shareholders Meeting held on April 29, 2010, resolved to appoint PricewaterhouseCoopers S.p.A. as Telecom Italia s primary independent auditors for the nine-year period 2010-2018 beginning with the financial year ended December 31, 2010. For US purposes the audit engagement conferred to Reconta Ernst & Young is coming to an end concurrently with the filing with the SEC of this Annual Report. As a result, the PricewaterhouseCoopers audit network after the filing with the SEC of this Annual Report will be the principal audit firm for the Telecom Italia Group, also for US purposes.

In October 2003, Telecom Italia, together with the Board of Auditors, adopted the Group Procedure for the Appointment of Auditors (the Group Procedure ). Such procedure was revised in 2009 in view of the engagement of the audit firm for the 2010-2018 period and new guidelines for the Appointment of Auditors are presently effective, starting with the appointment of PricewaterhouseCoopers S.p.A.

The above mentioned Group Procedure required that external auditors be appointed throughout the Group subject to prior approval by the Director with delegated authority and the Board of Auditors. The Group Procedure pre-approved certain audit and permissible non-audit services to be provided by the external auditors (and associated persons) and prohibited certain services. According to the Group Procedure, the Board of Auditors pre-approved (subject to annual review) the following audit and permitted non-audit services.

**Audit Services:**

1. Audit of annual and interim financial statements on the basis of applicable laws and regulations (including the audit of SEC registered companies annual report).

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**Item 16C. Principal Accountant Fees And Services**

2. Audit of annual and interim financial consolidated reporting packages.

3. Audit conformity of the Telecom Italia Group s sustainability reports or social reports.

4. Reports or opinions required by law for specific transactions from the auditor appointed to audit the annual financial statements, to the extent permitted.

5. Audits governed by the principles of national and international auditing such as:

   · procedures performed in relation to the issuance of a comfort letter (including for pro forma accounts and/or balance sheets) in relation to the carrying out of extraordinary financial operations;

   · audits agreed with management covering specific areas or accounts or accounting situations, to support the audit of periodic statements;

   · auditing of subsidiaries and associated companies (including review of the working papers of other auditors) made necessary for the purpose of auditing the periodic statements of the company being audited.

6. Audit of annual accounts and/or balance sheets to be published in prospectuses, information documents, offering memoranda and similar documents.

7. Services required by regulatory authorities and control agencies (such as, for example, those connected with so-called regulatory accounting ).

8. Audit of statements required by national or supranational administrations (such as, for example the EU) for the concession of grants or loans for specific actions or projects.

9. Audits aimed at issuance of an attestation of the system of internal control under Section 404 of the Sarbanes-Oxley Act.

**Permitted Non-audit Services:**

1. Audits in the following areas:

   · procedures for auditing associated companies provided for by agreements between shareholders (in relation to so-called audit rights );

   · financial due diligence procedures on companies to be bought or sold;

- procedures performed in the area of regulatory accounting;

- procedures performed on areas related to internal control in support of the internal auditor.

2. Opinions on accounting and reporting including those regarding (i) application of new accounting principles and new regulations on accounting and regulatory reporting, (ii) implementation of accounting principles current in other countries, (iii) implementation of rules and regulations issued by the SEC, Consob and similar bodies.

3. Assistance to the internal audit department within the limits imposed by SEC regulations.

The pre-approved services listed above were in all cases subject to scrutiny by the Director with delegated powers for internal controls who was in a position (by his own initiative or on request by the Committee for Internal Control and Corporate Governance or by the Board of Auditors) to request supplementary documentation to verify the independent status of the auditor and take appropriate action if necessary.

Services that were not included in one of the categories listed above used to require specific pre-approval of the Director with delegated powers for internal controls and the Board of Auditors. An approval was not granted if the service fell within a category of services not permitted by current law or if it was inconsistent with maintaining auditor independence.

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Item 16D. Exemptions From The Listing Standards For Audit Committees

Item 16E. Repurchases Of Equity Securities

Item 16F. Change In Registrant s Certifying Accountant

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Please see Item 10. Additional Information 10.1. Corporate Governance .

**Item 16E. REPURCHASES OF EQUITY SECURITIES**

From January 1, 2009, to December 31, 2009, Telecom Italia S.p.A. bought back through mandated intermediaries 11,400,000 Telecom Italia Ordinary Shares.

**Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT**

Not applicable. See, however, Item 16C. Principal Accountant Fees and Services Audit Committee s Pre-Approval Policies and Procedures.

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Item 16G. Corporate Governance Differences In Telecom Italia s Corporate Governance And New York Stock Exchange Corporate Governance Practices

**Item 16G. CORPORATE GOVERNANCE**

**16.1 DIFFERENCES IN TELECOM ITALIA S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES**

We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

*Independent Directors.* Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. Telecom Italia s Self-Regulatory Code incorporates by reference the same independence criteria set forth by the Borsa Italiana Code. As of May 6, 2010, 5 out of 15 members of the Telecom Italia Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

For further details see also 10.1 Corporate Governance General Board of Directors Independent Directors .

*Non-management Directors Meeting.* Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana s Corporate Governance Code requires independent directors to meet al least once a year without management present.

Telecom Italia s Self-Regulatory Code sets forth the position of Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2009 a total of four such sessions were held. The Lead Independent Director may use the Company s support functions in performing his tasks. As of May 6, 2010 the position is held by Paolo Baratta. For further details see also 10.1 Corporate Governance General Board of Directors Executive Directors and Activities of the Board .

*Board of Directors Internal Committees.* According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. According to Borsa Italiana s Corporate Governance Code, the Board of Directors shall evaluate whether to establish among its members a Nomination committee, while an Internal Control Committee and a Remuneration Committee (both made up of non-executive directors, the majority of which are independent) are required.

*Nominating/Corporate Governance Committee*. Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of Telecom Italia s bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0.5% of the share capital, to put forward slates of nominees for the appointment as directors: the system is intended to ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company s view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.

On the other hand, Telecom Italia has an Internal Control and Corporate Governance Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by Telecom Italia. In addition, the Company s Self-Regulatory Code entrusts the Nomination and Remuneration Committee with a nomination responsibility, when it is necessary to substitute an independent director.

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| Item 16G. Corporate Governance | Differences In Telecom Italia s Corporate Governance And New York Stock Exchange Corporate Governance Practices |
|---|---|

For further details see also 10.1 Corporate Governance General Board of Directors Internal Committees .

*Remuneration Committee*. Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO s compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

Telecom Italia has a Nomination and Remuneration Committee, made up of a majority of independent directors (one of them chosen from a minority slate). In accordance with Telecom Italia s by-laws and the Self-Regulatory Code, the remuneration of the Chairman and the Managing Director is determined by the Board, on the basis of proposals defined by the Committee. Moreover, the Remuneration Committee provides advice regarding remuneration criteria for the Company s senior management and is entrusted with the power of proposing candidates for the Board of Directors, in the event of replacement of an independent board member.

For further details see also 10.1 Corporate Governance General Board of Directors Internal Committees .

*Audit Committee*. US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for Telecom Italia, which therefore is exempted from the requirement to have a separate audit committee.

A Rule 303A written affirmation to this end was submitted to the NYSE on April 15, 2009. For further details see also 10.1 Corporate Governance General Board of Directors and 10.1 Corporate Governance General Board of Auditors .

*Adoption and Disclosure of Corporate Governance Guidelines*. US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the Telecom Italia Group s corporate governance policies can be found on Telecom Italia s website: www.telecomitalia.it under Governance .

*Code of business conduct and ethics*. NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or of laws and regulations.

Telecom Italia has adopted such a Code. For further details see also 10.1 Corporate Governance General Code of Ethics and Conduct .

*Annual Certification by The Chief Executive Officer.* A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, Telecom Italia submitted its foreign private issuer annual written affirmation on April 15, 2009.

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Item 17. Financial Statements

## PART III

### Item 17. FINANCIAL STATEMENTS

Not applicable.

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Item 18. Financial Statements

Item 19. Financial Statements and Exhibits

## Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

## Item 19. FINANCIAL STATEMENTS AND EXHIBITS

***(a) Financial Statements***


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***(b) Exhibits***

1.1 Bylaws of the Company.

2.1 Deposit Agreements.

(a) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and the holders from time to time of American Depositary Receipts representing Ordinary Shares of the Company.(1)

(b) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and holders from time to time of American depositary Receipts representing Savings shares of the Company.(2)

2.2 Trust deed dated January 23, 2004, between Telecom Italia (as Issuer and Guarantor), Telecom Italia Finance (as Issuer) and J.P. Morgan Corporate Trustee Services Limited relating to a 10 billion euros Medium Term Note Program. We hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.(3)

4.1 Public Telecommunications License.(4)

(a) Decision No. 820/00/CONS of 22.11.2000. Individual license for installation and supply of public telecommunications network and for the provision to the public of a voice telephony service (*modifications to the concessions and annexed conventions, ex SIP, Iritel and Italcable*).

4.2 Stock Option Plans.

(a) 2002 Top Plan regulations and form of Letter of Assignment addressed to participants of the plan.(5)

(b) 2002 Plan regulations and form of Letter of Assignment addressed to participants of the plan.(5)

(c) 2002-2004 Stock Option Plan (Olivetti).(6)

(d) February 2002-December 2004 Stock Option Plan (Olivetti).(6)

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**Item 19. Financial Statements and Exhibits**

(e) Top 2008 Plan Stock Option Plan reserved to the Chairman and the Chief Executive Officer of Telecom Italia S.p.A.(7)

(f) Performance Share Granting 2008.(8)

7.1 Statement explaining computation of ratio of Earnings to fixed charges under IFRS.

8.1 List of Subsidiaries.(9)

12(a) Certification by the Chief Executive Officer of Telecom Italia S.p.A.

12(b) Certification by the Head of Administration, Finance and Control of Telecom Italia S.p.A.

13.1 Section 906 Certification submitted for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

15(a) Consent of Independent Registered Public Accounting Firm.

(1) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107144).

(2) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107142).

(3) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).

(4) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F/A on June 29, 2001 (File No. 001-13882).

(5) Incorporated by reference to the Exhibits filed with the Company s Annual Report for the fiscal year ended December 31, 2002 on Form 20-F filed with the SEC on June 26, 2003 (File No. 001-13882).

(6) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).

(7) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on May 8, 2008 (File No. 001-13882).

(8) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on April 10, 2009 (File No. 001-13882).

(9) Please see Note List of Companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

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**Item 19. Financial Statements and Exhibits**

**SIGNATURE**

**Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Amended Annual Report on Form 20-F/A to be signed on its behalf by the undersigned, thereunto duly authorized.**

**TELECOM ITALIA S.p.A.**

By: /s/ Franco Bernabè
**Name:** **Franco Bernabè**
**Title:** **Chief Executive Officer**

Dated October 12, 2010

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**TELECOM ITALIA S.P.A.**

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Consolidated Financial Statements Report Of Independent Registered Public Accounting Firm

**Report of Independent Registered Public Accounting Firm**

To the Shareholders of Telecom Italia S.p.A.

We have audited the accompanying consolidated statements of financial position of Telecom Italia S.p.A. and subsidiaries as of December 31, 2009 and 2008 and January 1, 2008, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telecom Italia S.p.A. and subsidiaries at December 31, 2009 and 2008 and January 1, 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

As discussed in Note 3 to the consolidated financial statements, the 2007 and 2008 consolidated financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Telecom Italia S.p.A. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 20, 2010 expressed an adverse opinion thereon.

/s/ Reconta Ernst & Young S.p.A.

Milan, Italy

May 20, 2010

Reconta Ernst & Young S.p.A.
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A member firm of Ernst & Young Global Limited

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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2009, DECEMBER 31, 2008 (Restated) AND JANUARY 1, 2008 (Restated) ASSETS**

| | Note | As of December 31, 2009 | As of December 31, 2008 (Restated) | As of January 1, 2008 (Restated) |
|---|---|---|---|---|
| | | | (millions of euros) | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible assets** | | | | |
| Goodwill | 5 | 43,627 | 43,891 | 44,420 |
| Intangible assets with a finite useful life | 6 | 6,282 | 6,492 | 6,985 |
| | | **49,909** | **50,383** | **51,405** |
| **Tangible assets** | 7 | | | |
| Property, plant and equipment owned | | 13,606 | 14,252 | 15,484 |
| Assets held under finance leases | | 1,296 | 1,410 | 1,450 |
| | | **14,902** | **15,662** | **16,934** |
| **Other non-current assets** | | | | |
| Investments in associates and joint ventures accounted for using the equity method | 8 | 435 | 496 | 484 |
| Other investments | 8 | 53 | 57 | 57 |
| Securities, financial receivables and other non-current financial assets | 8 | 1,107 | 2,663 | 695 |
| Miscellaneous receivables and other non-current assets | 8 | 893 | 694 | 866 |
| Deferred tax assets | 9 | 1,199 | 1,002 | 250 |
| | | **3,687** | **4,912** | **2,352** |
| **TOTAL NON-CURRENT ASSETS (A)** | | **68,498** | **70,957** | **70,691** |
| **CURRENT ASSETS** | | | | |
| Inventories | 10 | 408 | 379 | 308 |
| Trade and miscellaneous receivables and other current assets | 11 | 7,462 | 8,101 | 9,088 |
| Current income tax receivables | 12 | 79 | 73 | 101 |
| Investments | 13 | 39 | 39 | |
| Securities other than investments | 14 | 1,843 | 185 | 390 |
| Financial receivables and other current financial assets | 15 | 1,115 | 491 | 377 |
| Cash and cash equivalents | 16 | 5,504 | 5,416 | 6,473 |
| **Current assets sub-total** | | **16,450** | **14,684** | **16,737** |
| **Discontinued operations/Non-current assets held for sale** | 17 | | | |
| of a financial nature | | 81 | | |
| of a non-financial nature | | 1,152 | 9 | |
| | | **1,233** | **9** | |
| **TOTAL CURRENT ASSETS (B)** | | **17,683** | **14,693** | **16,737** |

| | | | |
|---|---|---|---|
| **TOTAL ASSETS (A+B)** | **86,181** | **85,650** | **87,428** |

The accompanying notes are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2009, DECEMBER 31, 2008 (Restated) AND JANUARY 1, 2008 (Restated) EQUITY AND LIABILITIES**

| | Note | As of December 31, 2009 | As of December 31, 2008 (Restated) | As of January 1, 2008 (Restated) |
|---|---|---|---|---|
| | | | (millions of euros) | |
| **EQUITY** | 18 | | | |
| Share capital issued | | 10,674 | 10,674 | 10,674 |
| Less: treasury shares | | (89) | (83) | (69) |
| Share capital | | 10,585 | 10,591 | 10,605 |
| Paid-in capital | | 1,689 | 1,689 | 1,689 |
| Other reserves and retained earnings (accumulated losses), including profit for the year | | 13,678 | 13,318 | 13,137 |
| **Equity attributable to owners of the Parent** | | **25,952** | **25,598** | **25,431** |
| **Non-controlling interests** | | **1,168** | **730** | **1,063** |
| **TOTAL EQUITY (A)** | | **27,120** | **26,328** | **26,494** |
| **NON-CURRENT LIABILITIES** | | | | |
| Non-current financial liabilities | 19 | 36,752 | 36,527 | 37,051 |
| Employee benefits | 23 | 1,075 | 1,212 | 1,151 |
| Deferred tax liabilities | 9 | 160 | 386 | 586 |
| Provisions | 24 | 735 | 692 | 903 |
| Miscellaneous payables and other non-current liabilities | 25 | 1,084 | 1,539 | 1,587 |
| **TOTAL NON-CURRENT LIABILITIES (B)** | | **39,806** | **40,356** | **41,278** |
| **CURRENT LIABILITIES** | | | | |
| Current financial liabilities | 19 | 6,986 | 6,267 | 6,585 |
| Trade and miscellaneous payables and other current liabilities | 26 | 11,019 | 11,439 | 12,874 |
| Current income tax payables | 27 | 283 | 1,260 | 197 |
| **Current liabilities sub-total** | | **18,288** | **18,966** | **19,656** |
| **Liabilities directly associated with Discontinued operations/Non-current assets held for sale** | 17 | | | |
| of a financial nature | | 659 | | |
| of a non-financial nature | | 308 | | |
| | | **967** | | |
| **TOTAL CURRENT LIABILITIES (C)** | | **19,255** | **18,966** | **19,656** |
| **TOTAL LIABILITIES (D=B+C)** | | **59,061** | **59,322** | **60,934** |

| | | | |
|---|---|---|---|
| **TOTAL EQUITY AND LIABILITIES (A+D)** | **86,181** | **85,650** | **87,428** |

The accompanying notes are an integral part of these consolidated financial statements

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## SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 (Restated) AND 2007 (Restated)

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | Note | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | | (millions of euros) | |
| Revenues | 29 | 27,163 | 29,000 | 29,802 |
| Other income | 30 | 282 | 336 | 383 |
| **Total operating revenues and other income** | | **27,445** | **29,336** | **30,185** |
| Acquisition of goods and services | 31 | (11,480) | (13,120) | (13,442) |
| Employee benefits expenses | 32 | (3,734) | (4,114) | (3,715) |
| Other operating expenses | 33 | (1,616) | (1,631) | (2,268) |
| Changes in inventories | | (15) | 113 | 11 |
| Internally generated assets | 34 | 515 | 506 | 524 |
| Depreciation and amortization | 35 | (5,551) | (5,676) | (5,518) |
| Gains (losses) on disposals of non-current assets | 36 | (59) | 35 | 5 |
| Impairment reversals (losses) on non-current assets | 37 | (12) | (12) | (44) |
| **Operating profit** | | **5,493** | **5,437** | **5,738** |
| Share of profits (losses) of associates and joint ventures accounted for using the equity method | | 67 | 64 | 86 |
| Other income (expenses) from investments | 38 | (51) | 4 | 479 |
| Finance income | 39 | 2,561 | 3,748 | 2,912 |
| Finance expenses | 40 | (4,731) | (6,359) | (5,095) |
| **Profit before tax from continuing operations** | | **3,339** | **2,894** | **4,120** |
| Income tax expense | 41 | (1,121) | (677) | (1,661) |
| **Profit from continuing operations** | | **2,218** | **2,217** | **2,459** |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 17 | (622) | (39) | (99) |
| **Profit for the year** | 42 | **1,596** | **2,178** | **2,360** |
| *Attributable to:* | | | | |
| · *Owners of the Parent* | | *1,581* | *2,177* | *2,353* |
| · *Non-controlling interests* | | *15* | *1* | *7* |

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | | (Euros) | |
| **Basic and Diluted Earnings Per Share (EPS)(*)** | 43 | | | |
| Ordinary Share | | 0.08 | 0.11 | 0.12 |
| Savings Share | | 0.09 | 0.12 | 0.13 |
| Of which: | | | | |
| *From continuing operations* | | | | |

| | | | |
|---|---|---|---|
| *Ordinary Share* | *0.11* | *0.11* | *0.12* |
| *Savings Share* | *0.12* | *0.12* | *0.13* |
| *From Discontinued operations/Non-current assets held for sale* | | | |
| *Ordinary Share* | *(0.03)* | | |
| *Savings Share* | *(0.03)* | | |

(*) Basic EPS is equal to Diluted EPS.

The accompanying notes are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED**

**DECEMBER 31, 2009, 2008 (Restated) AND 2007 (Restated)**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | | (millions of euros) | |
| **Profit for the year** | **(A)** | **1,596** | **2,178** | **2,360** |
| **Other components of the Statement of Comprehensive Income:** | | | | |
| · **Available-for-sale financial assets:** | | | | |
| Profit (loss) from fair value adjustments | | 14 | (2) | (57) |
| Loss (profit) transferred to the Separate Consolidated Income Statement | | | | (138) |
| Income tax expense | | 4 | (8) | 11 |
| | **(B)** | **18** | **(10)** | **(184)** |
| · **Hedging instruments:** | | | | |
| Profit (loss) from fair value adjustments | | (1,504) | 124 | (114) |
| Loss (profit) transferred to the Separate Consolidated Income Statement | | 206 | 211 | 468 |
| Income tax expense | | 363 | (98) | (96) |
| | **(C)** | **(935)** | **237** | **258** |
| · **Exchange differences on translating foreign operations:** | | | | |
| Profit (loss) on translating foreign operations | | 964 | (793) | 291 |
| | **(D)** | **964** | **(793)** | **291** |
| · **Share of other profits (losses) of associates and joint ventures accounted for using the equity method:** | | | | |
| Profit (loss) | | (71) | 13 | (34) |
| Loss (profit) transferred to the Separate Consolidated Income Statement | | | | (55) |
| Income tax expense | | | | |
| | **(E)** | **(71)** | **13** | **(89)** |
| **Total** | **(F=B+C+D+E)** | **(24)** | **(553)** | **276** |
| **Total profit (loss) for the year** | **(A+F)** | **1,572** | **1,625** | **2,636** |
| *Attributable to:* | | | | |
| · *Owners of the Parent* | | *1,321* | *1,786* | *2,575* |
| · *Non-controlling interests* | | *251* | *(161)* | *61* |

The accompanying notes are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 (Restated) AND 2007 (Restated)**

- **CHANGES IN EQUITY IN 2007 (Restated)**

| | Share capital (a) | Paid-in capital (b) | Fair value adjustments on available-for-sale financial assets (c) | Fair value adjustments on hedging instruments (d) | Exchange differences on translating foreign operations (e) | Other gains (losses) of associates and joint ventures accounted for using the equity method (f) | Other reserves and retained earnings (accumulated losses), including profit (loss) for the year (g) | Equity attributable to owners of the Parent (h=a+b+c+d+e+f+g) | Equity attributable to Non-controlling interests (i) | Total equity (h+i) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of euros) | | | | | |
| **Balance at December 31, 2006** | **10,605** | **1,689** | **172** | **(54)** | **649** | **37** | **12,920** | **26,018** | **1,080** | **27,098** |
| Restatement for errors | | | | | | | (396) | (396) | | (396) |
| **Balance at December 31, 2006 (Restated)** | **10,605** | **1,689** | **172** | **(54)** | **649** | **37** | **12,524** | **25,622** | **1,080** | **26,702** |
| **Changes in equity in the year ended December 31, 2007:** | | | | | | | | | | |
| Dividends approved | | | | | | | (2,766) | (2,766) | (74) | (2,840) |
| Total comprehensive income (loss) for the year | | | (184) | 258 | 237 | (89) | 2,353 | 2,575 | 61 | 2,636 |
| Conversion of bonds | | | | | | | 2 | 2 | | 2 |
| Changes in the scope of consolidation | | | | | | | | | (2) | (2) |
| Other changes | | | | | | | (2) | (2) | (2) | (4) |
| **Balance at December 31, 2007 (Restated)** | **10,605** | **1,689** | **(12)** | **204** | **886** | **(52)** | **12,111** | **25,431** | **1,063** | **26,494** |

The accompanying notes are an integral part of these consolidated financial statements

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**Consolidated Financial Statements** **Consolidated Statements Of Changes In Equity**

· **CHANGES IN EQUITY IN 2008 (Restated)**

| | Share capital | Paid-in capital | Fair value adjustments on available-for-sale financial assets | Fair value adjustments on hedging instruments | Exchange differences on translating foreign operations | Other gains (losses) of associates and joint ventures accounted for using the equity method | Other reserves and retained earnings (accumulated losses), including profit (loss) for the year | Equity attributable to owners of the Parent | Equity attributable to Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h=a+b+c+d+e+f+g) | (i) | (h+i) |
| | | | | | | (millions of euros) | | | | |
| **Balance at December 31, 2007** | **10,605** | **1,689** | **(12)** | **204** | **886** | **(52)** | **12,602** | **25,922** | **1,063** | **26,985** |
| Restatement for errors | | | | | | | (487) | (487) | | (487) |
| Changes in accounting policies (IFRIC 13) | | | | | | | (4) | (4) | | (4) |
| **Balance at December 31, 2007 (Restated)** | **10,605** | **1,689** | **(12)** | **204** | **886** | **(52)** | **12,111** | **25,431** | **1,063** | **26,494** |
| **Changes in equity in the year ended December 31, 2008:** | | | | | | | | | | |
| · Dividends approved | | | | | | | (1,609) | (1,609) | (59) | (1,668) |
| · Total comprehensive income (loss) for the year | | | (10) | 237 | (631) | 13 | 2,177 | 1,786 | (161) | 1,625 |
| · Grant of equity instruments | | | | | | | 1 | 1 | | 1 |
| · Treasury shares | (14) | | | | | | (13) | (27) | | (27) |
| · Changes in the scope of consolidation | | | | | | | | | (117) | (117) |
| · Other changes | | | | | | | 16 | 16 | 4 | 20 |
| **Balance at December 31, 2008 (Restated)** | **10,591** | **1,689** | **(22)** | **441** | **255** | **(39)** | **12,683** | **25,598** | **730** | **26,328** |

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements — Consolidated Statements Of Changes In Equity

· **CHANGES IN EQUITY IN 2009**

| | Share capital | Paid-in capital | Fair value adjustments on available-for-sale financial assets | Fair value adjustments on hedging instruments | Exchange differences on translating foreign operations | Other gains (losses) of associates and joint ventures accounted for using the equity method | Other reserves and retained earnings (accumulated losses), including profit (loss) for the year | Equity attributable to owners of the Parent (h=a+b+c+d+e | Equity attributable to Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | +f+g) | (i) | (h+i) |
| | | | | | | (millions of euros) | | | | |
| **Balance at December 31, 2008** | **10,591** | **1,689** | **(22)** | **441** | **255** | **(39)** | **13,211** | **26,126** | **730** | **26,85** |
| Restatement for errors | | | | | | | (497) | (497) | | (49 |
| Changes in accounting policies (IFRIC 13) | | | | | | | (31) | (31) | | (3 |
| **Balance at December 31, 2008 (Restated)** | **10,591** | **1,689** | **(22)** | **441** | **255** | **(39)** | **12,683** | **25,598** | **730** | **26,32** |
| **Changes in equity in the year ended December 31, 2009:** | | | | | | | | | | |
| Dividends approved | | | | | | | (1,029) | (1,029) | (24) | (1,05 |
| Changes in ownership interests in subsidiaries that do not result in a loss of control | | | | | | | (110) | (110) | 110 | |
| Total comprehensive income (loss) for the year | | | 18 | (935) | 728 | (71) | 1,581 | 1,321 | 251 | 1,57 |
| Grant of equity instruments | | | | | | | 2 | 2 | | |
| Treasury shares | (6) | | | | | | (5) | (11) | | (1 |
| Changes in the scope of consolidation | | | | | | | 196 | 196 | 99 | 29 |
| Other changes | | | | | | | (15) | (15) | 2 | (1 |
| **Balance at December 31, 2009** | **10,585** | **1,689** | **(4)** | **(494)** | **983** | **(110)** | **13,303** | **25,952** | **1,168** | **27,12** |

The accompanying notes are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED**

**DECEMBER 31, 2009, 2008 (Restated) AND 2007 (Restated)**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | Note | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | | (millions of euros) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Profit from continuing operations | | 2,218 | 2,217 | 2,459 |
| *Adjustments* for: | | | | |
| Depreciation and amortization | | 5,551 | 5,676 | 5,518 |
| Impairment losses (reversals) on non-current assets (including investments) | | 27 | 212 | (34) |
| Net change in deferred tax assets and liabilities | | (48) | (1,031) | 935 |
| Losses (gains) realized on disposals of non-current assets (including investments) | | 55 | (37) | (467) |
| Share of losses (profits) of associates and joint ventures accounted for using the equity method | | (67) | (64) | (86) |
| Change in employee benefits | | (173) | 233 | (214) |
| Change in inventories | | (30) | (74) | (16) |
| Change in trade receivables and net amounts due from customers on construction contracts | | 336 | 737 | 113 |
| Change in trade payables | | (995) | (588) | 582 |
| Net change in current income tax receivables/payables | | (1,170) | 1,078 | 217 |
| Net change in miscellaneous receivables/payables and other assets/liabilities | | (229) | (98) | (612) |
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)** | | **5,475** | **8,261** | **8,395** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| *Purchase of intangible assets on an accrual basis* | 6 | *(2,017)* | *(2,360)* | *(2,120)* |
| *Purchase of tangible assets on an accrual basis* | 7 | *(2,526)* | *(2,680)* | *(2,911)* |
| Total purchase of intangible and tangible assets on an accrual basis | | (4,543) | (5,040) | (5,031) |
| *Change in amounts due to fixed asset suppliers* | | *619* | *(419)* | *329* |
| Total purchase of intangible and tangible assets on a cash basis | | (3,924) | (5,459) | (4,702) |
| Acquisition of control of subsidiaries or other businesses, net of cash acquired | | | | (636) |
| Acquisitions of other investments | 8 | (6) | (6) | (1) |
| Change in financial receivables and other financial assets | | (692) | (1,756) | 126 |
| Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of | | (13) | 452 | 3 |
| Proceeds from sale/repayments of intangible, tangible and other non-current assets | | 66 | 97 | 1,165 |
| **CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)** | | **(4,569)** | **(6,672)** | **(4,045)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Change in current financial liabilities and other | | (1,123) | 1,267 | 202 |
| Proceeds from non-current financial liabilities (including current portion) | | 5,563 | 2,317 | 2,622 |
| Repayments of non-current financial liabilities (including current portion) | | (4,260) | (4,302) | (5,218) |
| Proceeds from equity instruments | | | 1 | |
| Consideration paid for equity instruments | | (11) | (27) | |
| Dividends paid | | (1,050) | (1,665) | (2,831) |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)** | | **(881)** | **(2,409)** | **(5,225)** |

| | | | | |
|---|---|---|---|---|
| **CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)** | 17 | **61** | **(41)** | **95** |
| **AGGREGATE CASH FLOWS (E=A+B+C+D)** | | **86** | **(861)** | **(780)** |
| **NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)** | | **5,226** | **6,204** | **6,960** |
| **Net foreign exchange differences on net cash and cash equivalents (G)** | | **172** | **(117)** | **24** |
| **NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)** | | **5,484** | **5,226** | **6,204** |

The accompanying notes are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 (Restated) AND 2007 (Restated)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 (Restated) | 2007 (Restated) |
| | | (millions of euros) | |
| **ADDITIONAL CASH FLOW INFORMATION:** | | | |
| Income taxes (paid) received | (2,301) | (633) | (501) |
| Interest expense paid | (3,250) | (3,429) | (3,752) |
| Interest income received | 1,025 | 1,256 | 1,513 |
| Dividends received | 4 | 49 | 59 |
| **ANALYSIS OF NET CASH AND CASH EQUIVALENTS:** | | | |
| **NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:** | | | |
| · Cash and cash equivalents from continuing operations | 5,396 | 6,398 | 7,235 |
| · Bank overdrafts repayable on demand from continuing operations | (190) | (276) | (259) |
| · Cash and cash equivalents from Discontinued operations/Non-current assets held for sale | 20 | 82 | 30 |
| · Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale | | | (46) |
| | **5,226** | **6,204** | **6,960** |
| **NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:** | | | |
| · Cash and cash equivalents from continuing operations | 5,504 | 5,396 | 6,398 |
| · Bank overdrafts repayable on demand from continuing operations | (101) | (190) | (276) |
| · Cash and cash equivalents from Discontinued operations/Non-current assets held for sale | 81 | 20 | 82 |
| · Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale | | | |
| | **5,484** | **5,226** | **6,204** |

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements Notes To Consolidated Financial Statements

## NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION

### Form and Content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. ( **Telecom Italia** ) and its subsidiaries (the **Telecom Italia Group** or the **Group** ) operate mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The consolidated financial statements of the Telecom Italia Group are expressed, unless otherwise indicated, in millions of euros, which is also the currency of the primary economies in which the Group operates.

Foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the Note *Accounting Policies* .

The consolidated financial statements for the year ended December 31, 2009 have been prepared on a going concern basis (for further details please refer to Note *Accounting Policies* ) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS** ).

The designation **IFRS** also includes all effective revised International Accounting Standards ( **IAS** ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( **IFRIC** ), comprising those previously issued by the Standing Interpretations Committee ( **SIC** ).

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In 2009, the Group applied the accounting policies on a basis consistent with previous years except for IFRS 3R (*Business Combinations*) and IAS 27R (*Consolidated and Separate Financial Statements*) that were early adopted and whose effects are described in the Note *Accounting*

*Policies* .

For purposes of comparison, the consolidated statement of financial position at December 31, 2008 as well as the separate consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years ended December 31, 2008 and 2007 have been presented in accordance with IAS 1 revised (*Presentation of Financial Statements*).

Moreover, as discussed in the Note *Restatement for errors and changes in accounting policies* , following certain adjustments and provisions for errors as defined by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) made in connection with the Telecom Italia Sparkle case and due to the retrospective application, starting from January 1, 2009, of IFRIC 13 (*Customer Loyalty Programmes*) the comparative data of the corresponding periods of the years 2008 and 2007 have been appropriately adjusted and referred to as restated . The effects of the adoption of IFRIC 13 are also described in the Note *Accounting Policies* . Therefore, unless otherwise indicated, all financial data related to the years ended December 31, 2008 and 2007 included in the notes to consolidated financial statements are restated .

Publication of the consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2009 was approved by resolution of the Board of Directors meeting held on April 12, 2010.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**Financial Statement Formats**

The financial statement formats adopted are consistent with those indicated in IAS 1 revised, which came into effect on January 1, 2009. In particular:

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to current and non-current criterion;
- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;
- the **consolidated statement of comprehensive income** includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity; and
- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (*Statement of Cash Flows*).

**Segment Reporting**

The operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic and Brazil) and according to the specific businesses for the other segments.

Furthermore, as a result of including HanseNet Telekommunikation GmbH in Discontinued operations in the third quarter of 2009, the European BroadBand Business Unit is no longer presented. The other companies of that business unit have become part of Other operations.

However, the application of IFRS 8 has not required any changes in the disclosure by operating segment.

Furthermore, as a result of the application of IFRS 8, the term operating segment is considered synonymous with Business Unit ; the operating segments of the Telecom Italia Group are the following:

- **Domestic** Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the related support activities;

- **Brazil** Business Unit: includes telecommunications operations in Brazil;

- **Media** Business Unit: includes television network operations and management;

- **Olivetti** Business Unit: includes activities for the manufacture of digital printing systems and office products;

- **Other operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

For purposes of comparison and due to the restatement as a result of errors and adoption of IFRIC 13, the disclosure by operating segment for the periods under comparison has been appropriately restated.

**Scope Of Consolidation**

The changes in the scope of consolidation at December 31, 2009 compared to December 31, 2008 can be analyzed as follows:

- **Entry of companies in the scope of consolidation:**

| Company | | Business Unit | Month |
|---|---|---|---|
| Intelig Telecomunicaçóes Ltda | new acquisition | Brazil | December 2009 |
| H.R. Services S.r.l. | newly formed | Other Operations | June 2009 |

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· **Exit of companies from the scope of consolidation:**

| Company | | Business Unit | Month |
|---|---|---|---|
| Telecom Italia Lab S.A. (in liquidation) | liquidated | Other Operations | November 2009 |
| Olivetti Austria GmbH (in liquidation) | liquidated | Olivetti | September 2009 |
| Top Service S.p.A. (in liquidation) | liquidated | Olivetti | September 2009 |
| Giallo Viaggi.It S.r.l. (in liquidation) | liquidated | Media | August 2009 |
| Thinx.sm Telehouse Internet Exchange S.r.l. (in liquidation) | liquidated | Domestic | June 2009 |
| Telecom Media News S.p.A. | controlling interest sold | Media | May 2009 |
| Telemedia International USA Inc. | liquidated | Domestic | year 2009 |

· **Merger of companies:**

| Company | | Business Unit | Month |
|---|---|---|---|
| Tim Nordeste S.A. | merged in Tim Celular S.A. | Brazil | December 2009 |

Moreover, in 2008, the Liberty Surf group (Liberty Surf group S.A.S., Intercall S.A., Liberty Surf Network B.V. (in liquidation) and Telecom Italia S.A.S) were classified in Discontinued operations/Non-current assets held for sale . The sales transaction was finalized in August 2008.

A breakdown of subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2009 and December 31, 2008 is as follows:

| | December 31, 2009 | | |
|---|---|---|---|
| | Italy | Abroad | Total |
| **Companies:** | | | |
| subsidiaries consolidated line-by-line (*) | 30 | 67 | 97 |
| joint ventures accounted for using the equity method | 1 | 1 | 2 |
| associates accounted for using the equity method | 17 | 3 | 20 |
| **Total companies** | **48** | **71** | **119** |

| | December 31, 2008 | | |
|---|---|---|---|
| | Italy | Abroad | Total |
| **Companies:** | | | |
| subsidiaries consolidated line-by-line | 33 | 70 | 103 |
| joint ventures accounted for using the equity method | 1 | 1 | 2 |
| associates accounted for using the equity method | 18 | 4 | 22 |
| **Total companies** | **52** | **75** | **127** |

(*) Including subsidiaries classified in Discontinued operations/Non-current assets held for sale .

Further details are provided in Note *List of companies of the Telecom Italia Group* .

**NOTE 2 ACCOUNTING POLICIES**

**GOING CONCERN**

The consolidated financial statements for the year ended December 31, 2009 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future.

In particular, consideration has been given to the following factors which Management believes, at this time, are not such as to generate doubts as to the Group s ability to continue as a going concern:

- the main risks and uncertainties to which the Group and the various activities of the Telecom Italia Group are exposed;

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- the measures adopted in terms of the mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, described in the paragraph devoted to the share capital information under the Note *Equity* ; and

- the identification, the analysis, the objectives and the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note *Financial risk management* .

**CONSOLIDATION**

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The closing date of all the subsidiaries financial statements coincides with that of the Parent, Telecom Italia.

Control exists when the Parent Telecom Italia, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in the equity and in the profit for the year is disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 the total comprehensive loss (including the profit or loss for the period) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (please see below for more details).

Before 2009, if losses attributable to non-controlling interests in a consolidated subsidiary exceeded the non-controlling interests in the subsidiary s equity, the excess was allocated against the equity interest attributable to the equity holders of the Parent.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated on consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. A that date, goodwill is recorded under intangible assets, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than Euro are translated using the exchange rates in effect at the balance sheet date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the disposal of the investment. The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated at the average exchange rates for the year.

In the context of IFRS first-time adoption, the cumulative exchange differences arising from the consolidation of foreign subsidiaries outside the eurozone was set at nil, as allowed by IFRS 1 (*First-time Adoption of International Financial Reporting Standards*); therefore, only accumulated exchange differences generated and recorded after January 1, 2004 are included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

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In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

The consolidated financial statements include the Group s share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstance ceases. When the Group s share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group s statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

Before 2009, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the Group has applied the following accounting treatments (consistent with the Parent entity extension method):

- *acquisition of interests in companies after control is obtained*: on acquisition, the Group pays a consideration to the non-controlling interests and adjusts the non-controlling and controlling interests and records a Goodwill equal to the excess of the consideration paid over the carrying amount of the corresponding portion of assets and liabilities acquired; and

- *sale of interests in companies where control is retained*: the difference between the consideration received and the corresponding carrying amount in the consolidated financial statements is recognized in the separate income statement.

As far as intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 *(Accounting Policies, Changes in Accounting Estimates and Errors*), the Group has applied the following accounting treatment: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. Equity attributable to the non-controlling interests which does not directly take part in the transaction is adjusted to reflect the change with a corresponding opposite effect on the equity attributable to the owners of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

**Intangible Assets**

*Goodwill*

Following the early adoption of IFRS 3R (*Business Combinations*), which was applied prospectively, starting with the consolidated financial statements for the year ended December 31, 2009, goodwill is recognized as of the date control is obtained and measured as the excess of (a) over (b) below:

(a) the aggregate of:

- the consideration transferred (measured in accordance with IFRS 3R; it is generally recognized on the basis of the acquisition date fair value);

- the amount of any non-controlling interest in the acquiree measured, as allowed, at the non-controlling interest s proportionate share of the acquiree s identifiable net assets; and

- in a business combination achieved in stages, the acquisition date fair value of the acquirer s previously held equity interest in the acquiree;

(b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the date the Group attained control.

The IFRS 3R requires, *inter alia*, the following changes:

- incidental costs incurred in connection with a business combination are charged to the separate income statement, while they were previously included in the consideration paid; and

- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the date control is obtained and recognize the resulting gain or loss, if any, in the separate income statement, with a consequent effect on goodwill. Previously, the amount of goodwill was determined on the basis of the fair value of the net assets acquired at the date of each transaction.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill is initially recorded at cost and is subsequently reduced only for impairment losses. For additional details, please refer to the accounting policy *Impairment of tangible and intangible assets Goodwill*, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

Until December 31, 2008, goodwill was recorded as the excess of the cost of acquisition over the Group s interest in the fair value of those assets and liabilities acquired.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

*Development costs*

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset s future economic benefits are expected to be consumed by the entity.

*Other intangible assets with a finite useful life*

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate income statement prospectively.

For a small portion of bundled offerings, principally of mobile equipment and services, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;

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- there is a contract binding the customer for a specific period of time; and

- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period of the underlying contract (12 or 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

**Tangible Assets**

*Property, plant and equipment owned*

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at January 1, 2004, at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized when the obligation arises in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. The effects of this recalculation, if any, are recognized with an offsetting entry to tangible assets up to their carrying amount and for the excess to the separate income statement.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

*Assets held under finance leases*

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate income statement) and principal (recognized as a deduction from liabilities).

This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

Since there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate income statement on a straight-line basis over the lease term.

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**Impairment of Intangible and Tangible Assets**

*Goodwill*

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate income statement.

The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life.

The recoverable amount of a cash-generating unit (or group of cash-generating units), to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows generally cover a period of 3 years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

*Intangible and tangible assets with a finite useful life*

At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the separate income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate income statement.

**Financial Instruments**

In the context of IFRS first-time adoption, the Group early adopted IAS 32 (*Financial Instruments: Presentation*) and IAS 39 (*Financial Instruments: Recognition and Measurement*) at January 1, 2004. Furthermore, as allowed by IFRS 1, the designation of a financial instrument as a financial asset at fair value through profit or loss or available-for-sale or a financial liability measured at fair value through profit or loss was made at January 1, 2004 instead of at the date of initial recognition.

*Other investments*

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group s portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets; and

- financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate income statement.

Other unlisted investments classified as available-for-sale whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate income statement.

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*Securities other than investments*

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss; and
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate income statement. When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

*Receivables and loans*

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

*Cash and cash equivalents*

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

*Impairment of financial assets*

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported previously.

*Financial liabilities*

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Compound financial instruments represented by bonds convertible into shares of the issuer are recognized by splitting the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount, computed as the difference between the fair value of the debt and the proceeds raised on the issue of the financial instrument, is recorded in a specific equity reserve (Other equity instruments).

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

*Derivatives*

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge, the hedging relationship is formally designated and documented;

b) the hedge is expected to be highly effective;

c) its effectiveness can be reliably measured; and

d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39. When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- ***Fair value hedge*** Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate income statement.

- ***Cash flow hedge*** Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time as the hedged transaction affects the separate income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate income statement.

**Sales of Receivables**

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

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**Amounts Due from Customers on Construction Contracts**

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate income statement when they become known.

**Inventories**

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

**Discontinued operations/Non-current assets held for sale**

Discontinued operations/Non-current assets held for sale include lines of business and assets (or groups of assets) sold or to be disposed of, whose carrying amount was or will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

In accordance with IFRS, Discontinued operations/Non current assets held for sale are presented in the financial statements as follows:

- in two lines on the statement of financial position: Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale;
- in one line on the separate income statement: Profit (loss) from Discontinued operations/Non-current assets held for sale.

**Employee Benefits**

*Provision for employee severance indemnities*

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations. As allowed by IFRS 1 and IAS 19, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the separate income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability (unwinding effect), are included in the separate income statement under Employee benefits expenses .

Starting from January 1, 2007, the 2007 Italian Budget Law and the decrees implementing this law introduced significant changes to employee severance indemnity regulations, including the choice as to the possible destination of accruing employee severance indemnity either to supplementary pension funds or to the Treasury fund managed by INPS.

Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of Defined contribution plans whereas the amounts recorded in the provision for employee severance indemnities retain the nature of Defined benefit plans .

*Equity compensation plans*

The companies of the Group provide additional benefits to certain managers and employees of the Group through equity compensation plans (stock options and performance share grants). The stock option plans starting from January 1, 2005 and the performance share granting plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

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As allowed by IFRS 1, the Group did not apply IFRS 2 to stock option plans granted before November 7, 2002, as the terms and conditions of such plans had not changed.

In accordance with IFRS 2, employee stock options and performance share grants are measured at fair value at the grant date using models that take account of circumstances and factors applicable at the grant date (for instance, for the stock options: option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).

If the right vests over a certain vesting period and, depending on the circumstances, also when certain vesting conditions are satisfied, the total value is allocated over the vesting period and recorded in an equity reserve under Other equity instruments , with a contra-entry to the separate income statement under Employee benefits expenses .

At the end of each year, the originally measured fair value of each right is not adjusted or updated. However, at that date, adjustments are made to the estimate of the number of rights that will vest up to expiry (and therefore the number of employees who will have option exercise rights or receive shares, as a result of remaining, for example, in service over the vesting period). The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses .

**Provisions**

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably. Furthermore, we exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

**Treasury Shares**

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

**Foreign Currency Transactions**

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate income statement.

**REVENUES**

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· ***Revenues from services rendered***

Revenues from services rendered are recognized in the separate income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers).

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

· ***Revenues from sales and bundled offerings***

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

When an arrangement contains multiple elements (equipment and/or services), revenues are allocated to each element based on its relative fair value. For offerings that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract, when other revenue recognition criteria are met.

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

A small portion of the bundled offerings in the mobile business are contracts with a minimum contractual period of 12 or 24 months and which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· ***Revenues on construction contracts***

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

**Research Costs and Advertising Expenses**

Research costs and advertising expenses are charged directly to the separate income statement in the year in which they are incurred.

**TAXES**

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group, including relative incidental expenses of a non-financial nature (e.g. penalties); the relative interest expenses are recognized under Finance expenses .

Income taxes are recognized in the separate income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves.

The income tax expense that could arise on the remittance of a subsidiary s retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred taxes are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities

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Consolidated Financial Statements Notes To Consolidated Financial Statements

are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

**Dividends**

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate income statement in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

**Earnings per Share**

Basic earnings per ordinary share is calculated by dividing the Group s profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group s profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the conversion of bonds and the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

**Use of Estimates**

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

| Financial statement line item/area | Accounting estimates |
|---|---|
| **Goodwill** | The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in Note *Goodwill* . |
| **Business combinations** | The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the recognition of goodwill, through the use of a complex process in determining such values. |
| **Bad debt provisions** | The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables. |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

| Financial statement line item/area | Accounting estimates |
|---|---|
| **Accruals, contingent liabilities and employee benefits** | As regards the provisions for restoration costs, the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.<br><br>The accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimate process based upon the probability of an unfavorable outcome.<br><br>Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities. |
| **Revenues** | Revenue recognition is influenced by:<br><br>· the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs up to the ceiling of the amount of revenues);<br><br>· the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues;<br><br>· the estimate of the fair value of each component of bundled offerings. |
| **Income taxes** | Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning. |
| **Derivative instruments and equity instruments** | The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc. |

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

**Correction of Errors**

IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) provides for, among other things, the recognition and disclosure of prior year errors. According to this standard, errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Material errors, with respect to the their size and the circumstances that caused them, shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

- restated the comparative amounts for the prior years presented in which the error occurred; or

- restated the opening balances of assets, liabilities and equity for the earliest prior year presented if the error occurred before the earliest prior year presented.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior year error had never occurred.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB AND IN FORCE AS FROM JANUARY 1, 2009**

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2009 are reported below and briefly summarized.

*IFRS 8 (Operating Segments)*

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments for which discrete financial information is available and whose operating results are reviewed regularly by the entity s Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance. Financial information is to be presented on the same basis as that used for internal reporting to the CODM. IFRS 8 supersedes IAS 14 (*Segment Reporting*). The adoption of this standard did not involve any changes in the disclosure related to the operating segments.

*IAS 23 (Borrowing Costs) Amendments*

The main amendment to IAS 23 removes the option, allowed in the previous version of the standard, of immediately recognizing borrowing costs as an expense in the period incurred (the treatment adopted by the Telecom Italia Group), rather than capitalizing them. The revised IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for use or sale to be capitalized as part of the cost of such assets. The adoption of this standard did not have any effect on the consolidated financial statements at December 31, 2009.

*IFRS 2 (Share-Based Payment) Amendments*

The standard clarifies the definition of vesting conditions and specifies the cases in which a condition that is not satisfied will result in the recognition of a cancellation of the award granted. The amendments did not have any impact on the consolidated financial statements at December 31, 2009.

*IFRIC 13 (Customer Loyalty Programmes)*

This interpretation addresses general accounting guidelines for customer loyalty programmes. Such interpretation is characterized by the following elements:

- loyalty award credits granted to a customer are considered a separately identifiable element of the original sales transaction of the product or service itself and represent rights granted to the customer, for which the customer implicitly paid;

- the amount of sales proceeds allocated to the loyalty award credits is measured by reference to their fair value (that is, the amount for which the award credits could have been sold separately). The entity recognizes the deferred portion of the proceeds as revenue only when it has fulfilled its obligations.

IFRIC 13 was accounted for retrospectively in accordance with IAS 8 and led to the restatement of the prior year s financial statements (for further details, please see Note *Restatement for errors and changes in accounting policies* ).

*IAS 1 revised (Presentation of Financial Statements)*

The main changes introduced provide for:

- the presentation in the statement of changes in equity of the details related only to the owner changes in equity;

- the presentation of all non-owner changes in equity in two statements (approach adopted by Telecom Italia):

  - a statement (Separate income statement) displaying components of profit (loss) for the year; and

  - a statement (Statement of comprehensive income) beginning with profit (loss) for the year and displaying components of other comprehensive income.

*IAS 32 (Financial Instruments: Presentation) and IAS 1 (Presentation of Financial Statements) Amendments*

The amendments to IAS 32 require, when certain conditions are met, that certain puttable financial instruments or obligations arising on liquidation should be classified as equity. The amendments to IAS 1 require disclosure of specific information about those instruments. The adoption of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

*IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)*

This interpretation eliminates the possibility of applying hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent s consolidated financial statements. Moreover, the interpretation clarifies that in a hedge of a net investment in a foreign operation the hedging instrument may be held by any company within the group.

The adoption of this interpretation did not have any effect on the consolidated financial statements at December 31, 2009.

*Amendments to IFRIC 9 (Reassessment of embedded derivatives) and IAS 39 (Financial Instruments: Recognition and Measurement): embedded derivatives*

The amendments to IFRIC 9 and IAS 39 allow entities to reclassify certain financial instruments out of the fair value through profit or loss category in specific circumstances. The amendments clarify that on the reclassification of a financial asset out of the fair value through profit or loss category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements.

The application of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

*Amendments to IFRS 7 (Financial instruments: disclosures): improving disclosures about financial instruments*

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements recognized in the consolidated statement of financial position. For the purpose of these expanded disclosures a three-level hierarchy has been introduced (level 1: quoted prices; level 2: inputs derived from observable market data; level 3: inputs that are not based on observable market data). Amendments have also been made to the liquidity risk disclosures.

The adoption of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

*IFRIC 18 (Transfer of Assets from Customers)*

This interpretation applies to the accounting for transfers of items of property, plant or equipment by entities that receive such transfers from their customers and that the entity must then use to connect the customer to a network to provide the same goods or services. If the transferred item is controlled by the entity, it should be measured at fair value on initial recognition in property, plant and equipment. The interpretation also applies to cash received by entities from clients that must be used only to construct the asset. The related revenues should be recognized over the terms of the contract agreed with the client to supply the goods or services or, if the date is not specified, over a period no longer than the estimated useful life of the asset. IFRIC 18 shall be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The application of this interpretation did not have any effect on the consolidated financial statements at December 31, 2009.

*Improvements to IFRS (issued by IASB in 2008)*

The main improvements that are effective from January 1, 2009 are the following:

- IAS 1 (*Financial Statement Presentation*)*:* assets and liabilities arising from derivative financial instruments that are not held for trading and that are not financial guarantee contracts or designated hedging instruments should be presented as either current or non-current assets and liabilities, according to their settlement date.

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- IAS 16 (*Property, Plant and Equipment*): the amendment provides clarification on the classification and accounting treatment for an entity that, in the course of the ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others.

- IAS 19 *(Employee Benefits)*: the amendment clarifies the treatment for changes in employee benefits, defines recognition for cost and income relating to past service cost and revises the distinction between short-term and long-term employee benefits, and must be applied prospectively.

- IAS 20 (*Accounting for Government Grants and Disclosure of Government Assistance*): the amendment states that the benefit of a government loan at a below-market interest rate should be treated as a government grant, and must be applied prospectively.

- IAS 23 (*Borrowing Costs*): the amendment consists in a better definition of borrowing costs.

- IAS 28 (*Investments in Associates)*: the amendment clarifies that where investments in associates are accounted for by the equity method, any impairment loss should not be allocated to specific assets (and, in particular, to any goodwill) included within the carrying amount of the investment in the associate, but, rather, to the investment as a whole. Accordingly, where there are conditions for a subsequent reversal, such impairment reversal is recognized in full.

- IAS 36 (*Impairment of Assets*)*:* this amendment requires additional disclosure if fair value less costs to sell is determined using discounted cash flow projections.

- IAS 38 (*Intangible Assets*)*:* the amendment requires that when an entity incurs costs providing future economic benefits, but no intangible assets are recognized, such costs should be recognized as expenses when incurred, meaning when the entity receives the related goods or services. Moreover, an amendment to the standard allows entities to use the Unit of Production Method to calculate the amortization charge on an intangible asset with a finite useful life.

- IAS 39 (*Financial Instruments: Recognition and Measurement*)*:* the amendment clarifies how to calculate the revised effective interest rate on a financial instrument on cessation of fair value hedge accounting and also specifies the cases in which it is possible for there to be movements into and out of the fair value through profit or loss category.

The application of *Improvements to IFRS (2008)* did not have any effect on the consolidated financial statements at December 31, 2009.

**New Standards and Interpretations issued by IASB not yet in force and early adopted**

*IFRS 3R (Business Combinations) and IAS 27R (Consolidated and Separate Financial Statements)*

IFRS 3R introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27R requires that a change in a parent s ownership interest in a subsidiary that does not result in loss of control be accounted for as an equity transaction, clarifies the accounting treatment in the

event of the loss of control in a subsidiary and requires that the investors losses share in a non-controlling interest be allocated to the non-controlling interest even if this results in a deficit.

The changes introduced by IFRS 3R and IAS 27R must be applied prospectively starting from January 1, 2010. However, following the acquisition of the entire stake in the Brazilian telecommunications company Intelig Telecomunicações Ltda at the end of December 2009, by means of the merger of Holdco Participações Ltda (the parent company of Intelig) into Tim Participações S.A., Telecom Italia has decided, as allowed, to early adopt such amendments starting from the 2009 financial statements. The early adoption of such amendments (in particular of IAS 27R) resulted in the recognition in equity, instead of recording a gain through the separate income statement, of the capital gain realized on the partial sale (without loss of control) of Tim Participações S.A. for a total amount of 47 million euros. Moreover, the adoption of these amendments resulted in an effect on the earnings per share for the year 2009 of less than 0.01 euros.

**New Standards and Interpretations not yet in force**

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2010 are reported below and briefly summarized.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

*IAS 39 (Financial Instruments: Recognition and Measurement Eligible hedged items) Amendments*

These amendments to IAS 39 provide the following clarifications in relation to hedge accounting:

- identifying the cases in which inflation may be a hedged risk;
- specifying that only the intrinsic value, not the time value, of an option can be designated as a hedge of one or some risks of a hedged item (that is, a one-sided risk).

The amendments are effective beginning January 1, 2010 and must be applied retrospectively in accordance with IAS 8. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

*IFRIC 17 (Distribution of Non-cash Assets to Owners)*

This interpretation provides guidelines on the accounting treatment for the distribution of non-cash assets to shareholders. In particular, the interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity should recognize the difference between the dividend paid and the carrying amount of the net assets used for payment in the separate income statement.

IFRIC 17 is effective beginning January 1, 2010 and must be applied prospectively. The application of this interpretation is not expected to have any effect on the consolidated financial statements.

*Amendment to IAS 32 (Classification of Rights Issues)*

The amendments to IAS 32 regard the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendments require that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendments to IAS 32 are effective beginning January 1, 2011, but earlier application is permitted. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

*Amendments to IFRS 2 (Group Cash-settled Share-based Payment Transactions)*

The amendments clarify, among other things, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments are effective from January 1, 2010. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

*Improvements to IFRS (issued by IASB in 2008)*

An amendment was made to IFRS 5 (*Non-current Assets held for Sale and Discontinued Operations):* the amendment clarifies that all of a subsidiary s assets and liabilities are classified as held for sale if an entity s disposal sale plan results in loss of control, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The amended IFRS 5 is effective from January 1, 2010. The application of this improvement is not expected to have any effect on the consolidated financial statements.

*IFRS 9 (Financial Instruments)*

In November 2009, the IASB issued IFRS 9. Such standard regards the classification and measurement of financial assets and represents the first part of a three-part project to replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. Such approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new standard must be applied for annual periods beginning on or after January 1, 2013. The Group is evaluating if the application of this standard will result in material effects on the consolidated financial statements.

*IAS 24 (Related Party Disclosures)*

In November 2009, IASB revised IAS 24 (*Related Party Disclosures)* to provide a partial exemption from the disclosure requirements for government-related entities; in addition the definition of related party was revised and some clarifications were introduced on the disclosure content. The amendments to IAS 24 are effective beginning January 1, 2011, with earlier application permitted. The adoption of this standard is not expected to have an effect on the measurement of consolidated financial statement line items.

*IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)*

In November 2009, IASB issued IFRIC 19. This interpretation clarifies the requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares or other equity instruments to settle the financial liability fully or partially. In particular, IFRIC 19 clarifies as follows:

- the entity s equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability;
- the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished;
- the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity s separate income statement for the year.

IFRIC 19 is effective beginning January 1, 2011, with earlier application permitted. The application of this interpretation is not expected to have a material impact on the consolidated financial statements.

*Amendments to IFRIC 14 (Prepayments of a Minimum Funding Requirement)*

In November 2009, IASB revised IFRIC 14. In particular, the amendments refer to when an entity is subject to minimum funding requirements and makes an early payment of contribution to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The amendments to IFRIC 14 are effective beginning January 1, 2011. Earlier application is permitted. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

*Improvements to IFRS (issued by IASB in 2009)*

The main improvements, which are effective from January 1, 2010, are illustrated below.

- ***IFRS 2 (Share-based Payment)*** These amendments clarify that following the changes made by IFRS 3R to the definition of a business combination, the contribution of a business on the formation of a joint venture and the combination of entities or businesses under common control do not fall within the scope of IFRS 2.

- ***IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)*** This amendment, which shall be applied prospectively, clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

- ***IFRS 8 (Operating Segments)*** The amendment to IFRS 8 clarifies that an entity shall report a measure of total assets for each reportable segment only if such an amount is regularly provided to the Chief Operating Decision Maker. Before, this information was required, in any case, for each reportable segment.

- ***IAS 1 (Presentation of Financial Statements)*** This amendment clarifies that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, even if, at the option of the counterparty, the terms of a liability could result in its settlement by the issue of equity instruments.

- ***IAS 7 (Statement of Cash Flows)*** The amendment clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

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- ***IAS 17 (Leases)*** The amendment refers to the classification of leases of land and buildings. When a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognized retrospectively.

- ***IAS 36 (Impairment of Assets)*** The amendments refer to the allocation of goodwill to cash-generating units (or groups of cash-generating units) of an acquirer in a business combination or for purposes of impairment testing. In particular, the amendments clarify that each unit or group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by IFRS 8 (*Operating Segments*) before aggregation.

- ***IAS 39 (Financial Instruments: Recognition and Measurement)*** The main amendments, to be applied prospectively to all unexpired contracts, are as follows:

  - within the scope of IAS 39, the clarification about the exclusion of any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date;

  - as regards accounting for an embedded derivative separately from the host contract, the following clarification regarding the prepayment option embedded in a host debt contract was introduced: in the case in which the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract, such option shall be considered closely related to the host contract and therefore not accounted for separately.

- ***IFRIC 9 (Reassessment of Embedded Derivatives)*** This amendment, applicable prospectively, excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture.

- ***IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)*** The amendments refer to the removal of the prohibition to use a derivative held by the foreign operation being hedged as a hedge of the net investment in that foreign operation.

The application of the *Improvements to IFRS (2009)* is not expected to have a material impact on the Company s consolidated financial statements.

**NOTE 3 RESTATEMENT AS A RESULT OF ERRORS AND CHANGES IN ACCOUNTING POLICIES**

The ongoing criminal investigation involving Telecom Italia Sparkle, and the Rome court Order issued in relation to this investigation (the **Order** ) which was served on Telecom Italia Sparkle on February 23, 2010 for further details please see Note *Contingent liabilities, other information, commitments and guarantees* alleges that a number of former directors, former employees and current employees of Telecom Italia Sparkle committed crimes of cross-border criminal conspiracy, tax evasion, international money-laundering, reinvestment of profits from criminal activities, and registering assets under false names. The charges of cross-border criminal conspiracy, international money-laundering and reinvestment of profits from criminal activities are possible offenses that may entail administrative liability for a corporation under the Legislative Decree No. 231/2001.

As part of the proceedings, the Rome Judge issued a seizure order for 298 million euros, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation. A hearing was scheduled in chambers to discuss the request for the appointment of an Administrator for Telecom Italia Sparkle pursuant to Legislative Decree No. 231/2001. On April 6, 2010, the Preliminary Investigations Judge cancelled this hearing as there were no longer any grounds to proceed on this matter.

In addition to the amounts seized, Telecom Italia Sparkle, as detailed in Note *Contingent liabilities, other information, commitments and guarantees* , provided guarantees for 195 million euros, of which 72 million euros corresponds to the potential seizure of profits generated by the sales transactions noted above, and 123 million euros corresponds to the difference between the amount already seized and corresponding to the VAT deducted during tax years 2005, 2006 and 2007 (298 million euros), and the highest amount the company could potentially owe in settlement of its tax position regarding the use of VAT credits on the basis of one of the possible settlement procedures with the Italian Tax Authorities.

The sales transactions effected, in the financial years 2005, 2006 and 2007, related to Premium telecommunications services carried over the Telecom Italia Sparkle network and were conducted with a number of small telecommunications carriers resident in the European Union (EU).

*Internal investigation 2007*

In November 2006, the Rome Judge that issued the Order interviewed a number of Telecom Italia Sparkle officials, directors and employees in connection with the Prosecutor s investigation of a VAT fraud alleged to have been committed by a number of Italian telecommunications operators, including the clients and suppliers identified in the Order. Soon after Telecom Italia became aware of the judicial investigation, in January 2007 Telecom Italia Sparkle on the request of Telecom Italia, launched an internal investigation into contracts and commercial relations with these particular clients and suppliers. On completion of the internal investigation, which was undertaken with the assistance of independent tax consultants, in June 2007 commercial relations with the above-mentioned parties were terminated. As part of the investigation, and with the assistance of independent tax consultants, Telecom Italia assessed its VAT position and particularly the tax paid with regard to the above-mentioned commercial transactions. The full extent of the alleged VAT fraud was not detected at the time, and, as a result, the conclusion of the investigation was that deduction of VAT on these purchases was appropriate.

*Events subsequent to receipt of Order*

Analyses and information acquired since the Order have provided additional facts for assessment of the events under investigation and the analysis undertaken in the past, adding previously unknown information which has become available through investigations undertaken by the Rome Prosecutors, using their specific powers and faculties.

*Internal investigation 2010*

Subsequent to the issue of the Order, independent legal and accounting advisors were appointed to conduct a documentary investigation into activities between 2005 and 2009. The advisers analysis focused on contracts and relations maintained by Telecom Italia Sparkle other than those covered under the Order, referring in particular to counterparties other than major telecommunications carriers and other Telecom Italia Group companies, concentrating on traffic data and associated revenues, costs and payments. The findings of the internal investigation were presented to the Board of Statutory Auditors and the Company s Board of Directors.

*Restatement*

Drawing upon information available under the Order, along with data acquired as part of the 2010 internal investigation, Telecom Italia concluded that a number of transactions in the financial years 2005, 2006 and 2007 were affected by certain anomalies such that certain transactions and traffic were without substance and, in addition there were certain anomalies relating to the destination and routing of some traffic, to such an extent Telecom Italia now believes that these transactions resulted in errors as defined under IAS 8.

Therefore, in compliance with IAS 8, and without prejudice to any rights and remedies available to Telecom Italia Sparkle under Law 231, Telecom Italia is restating the revenues and costs recorded in 2005 (not presented herein), 2006 (not presented herein) and 2007 for these transactions as follows:

- 2005-2007: adjustment of revenues and costs for the transactions identified; the surplus of revenues over costs has been adjusted and recognized against provisions for risks and charges under Trade and miscellaneous payables and other current liabilities in regard to legal risks and charges connected with this matter;

- 2005-2007: provisions for risks and charges included under Trade and miscellaneous payables and other current liabilities for further tax risks and charges (including those related to the documentary investigation amounting to 12 million euros, of which 11 million euros for improperly deducted VAT and 1 million euros for penalties);

- 2005-2009: provisions for risks and charges concerning legally-applicable interest associated with the above provisions, for the year to which they apply (including those related to the documentary investigation amounting to 2 million euros).

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After making these adjustments and provisions, the data for the 2008 and 2007 financial statements used in comparisons have been restated. The total amount set aside in provision for risks and charges, recognized against Equity attributable to Owners of the Parent, amounts to 487 million euros as at January 1, 2008, 497 million euros as at December 31, 2008, and 507 million euros as at December 31, 2009.

The adjustments and provisions made are summarized as follows:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007(*) | 2006(*) | 2005(*) | Total |
| | | | (millions of euros) | | | |
| · Adjustment to Revenues and Other income | | | (168) | (754) | (323) | (1,245) |
| · Adjustment to Acquisition of goods and services | | | 155 | 707 | 311 | 1,173 |
| · Other operating expenses (Provision charges for indirect taxes (VAT) and fines) | | | (70) | (256) | (77) | (403) |
| **IMPACT ON OPERATING PROFIT** | | | **(83)** | **(303)** | **(89)** | **(475)** |
| · Finance expenses (Provision charges for interest on VAT) | (10) | (10) | (8) | (4) | | (32) |
| **IMPACT ON PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT** | **(10)** | **(10)** | **(91)** | **(307)** | **(89)** | **(507)** |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | | | (millions of euros) | | |
| **IMPACT ON EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | **(507)** | **(497)** | **(487)** | **(396)** | **(89)** |
| Trade and miscellaneous payables and other current liabilities (Provisions for risk and charges)(1) | 507 | 497 | 487 | 396 | 89 |
| **IMPACT ON TOTAL CURRENT LIABILITIES** | **507** | **497** | **487** | **396** | **89** |

(*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the accompanying January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the accompanying consolidated financial statements.

(1) The adjustments made do not impact the other statement of financial position line items.

Restated adjusted data are as follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007(*) | 2006(*) | 2005(*) |

| | | | (millions of euros) | | |
|---|---|---|---|---|---|
| Revenues | 27,163 | 29,000 | 29,802 | 29,785 | 29,193 |
| **Total operating revenues and other income** | **27,445** | **29,336** | **30,185** | **30,358** | **29,861** |
| Acquisition of goods and services | (11,480) | (13,120) | (13,442) | (12,876) | (12,253) |
| Other operating expenses | (1,616) | (1,631) | (2,268) | (1,769) | (1,524) |
| **Operating profit** | **5,493** | **5,437** | **5,738** | **7,269** | **7,548** |
| Finance income (expenses) | (2,170) | (2,611) | (2,183) | (2,191) | (2,058) |
| **Profit for the year** | **1,596** | **2,178** | **2,360** | **2,696** | **3,601** |
| *Attributable to owners of the Parent* | *1,581* | *2,177* | *2,353* | *2,707* | *3,127* |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | | | (millions of euros) | | |
| Equity attributable to owners of the Parent | **25,952** | **25,598** | **25,431** | **25,622** | **25,573** |

(*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the accompanying January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the accompanying consolidated financial statements.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

The following tables reflect the impacts on the prior year s financial statement line items of the accounting adjustments for errors as defined by IAS 8 in connection with the Telecom Italia Sparkle case and the retrospective application of IFRIC 13.

| | Year ended December 31, 2008 | | | | Year ended December 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Historical | Errors | Impact IFRIC 13 (*) | Restated | Historical | Errors | Impact IFRIC 13 (*) | Restated |
| | (millions of euros) | | | | | | | |
| Revenues | 29,042 | | (42) | 29,000 | 29,988 | (169) | (17) | 29,802 |
| Other income | 336 | | | 336 | 382 | 1 | | 383 |
| Acquisition of goods and services | (13,116) | | (4) | (13,120) | (13,597) | 155 | | (13,442) |
| Other operating expenses | (1,638) | | 7 | (1,631) | (2,207) | (70) | 9 | (2,268) |
| **OPERATING PROFIT** | **5,476** | | **(39)** | **5,437** | **5,829** | **(83)** | **(8)** | **5,738** |
| Finance expenses | (6,349) | (10) | | (6,359) | (5,087) | (8) | | (5,095) |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | **2,943** | **(10)** | **(39)** | **2,894** | **4,219** | **(91)** | **(8)** | **4,120** |
| Income tax expense | (689) | | 12 | (677) | (1,665) | | 4 | (1,661) |
| **PROFIT FROM CONTINUING OPERATIONS** | **2,254** | **(10)** | **(27)** | **2,217** | **2,554** | **(91)** | **(4)** | **2,459** |
| **PROFIT (LOSS) FOR THE YEAR** | **2,215** | **(10)** | **(27)** | **2,178** | **2,455** | **(91)** | **(4)** | **2,360** |
| Attributable to: | | | | | | | | |
| * **Owners of the Parent** | **2,214** | **(10)** | **(27)** | **2,177** | **2,448** | **(91)** | **(4)** | **2,353** |
| * Non-controlling interests | 1 | | | 1 | 7 | | | 7 |

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**Consolidated Financial Statements** **Notes To Consolidated Financial Statements**

| | As of December 31, 2008 | | | | As of January 1, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Historical | Errors | Impact IFRIC 13 (*) | Restated | Historical | Errors | Impact IFRIC 13 (*) | Restated |
| | | | | (millions of euros) | | | | |
| Deferred tax assets | 987 | | 15 | 1,002 | 247 | | 3 | 250 |
| **TOTAL NON-CURRENT ASSETS** | **70,942** | | **15** | **70,957** | **70,688** | | **3** | **70,691** |
| **TOTAL ASSETS** | **85,635** | | **15** | **85,650** | **87,425** | | **3** | **87,428** |
| **EQUITY** | | | | | | | | |
| Other reserves and retained earnings (accumulated losses), including profit for the year | 13,846 | (497) | (31) | 13,318 | 13,628 | (487) | (4) | 13,137 |
| **Equity attributable to owners of the Parent** | **26,126** | **(497)** | **(31)** | **25,598** | **25,922** | **(487)** | **(4)** | **25,431** |
| Non-controlling interests | 730 | | | 730 | 1,063 | | | 1,063 |
| **TOTAL EQUITY** | **26,856** | **(497)** | **(31)** | **26,328** | **26,985** | **(487)** | **(4)** | **26,494** |
| Trade and miscellaneous payables and other current liabilities | 10,896 | 497 | 46 | 11,439 | 12,380 | 487 | 7 | 12,874 |
| **TOTAL CURRENT LIABILITIES** | **18,423** | **497** | **46** | **18,966** | **19,162** | **487** | **7** | **19,656** |
| **TOTAL LIABILITIES** | **58,779** | **497** | **46** | **59,322** | **60,440** | **487** | **7** | **60,934** |
| **TOTAL EQUITY AND LIABILITIES** | **85,635** | | **15** | **85,650** | **87,425** | | **3** | **87,428** |

(*) As described in Note *Accounting Policies* , IFRIC 13 was accounted for retrospectively in accordance with IAS 8 and led to the restatement of the separate consolidated income statement and the consolidated statement of cash flows for the years ended December 31, 2008 and 2007 in addition to the consolidated statement of financial position at December 31, 2008 and at January 1, 2008. Such restatement is related to the Domestic operating segment only. The application of IFRIC 13 led to: a decrease in revenues mainly in reference to the deferral of the component relating to customer award credits granted and an increase in acquisition of goods and services correlated to the redemption of awards and a consequent reduction in the tax charge. In the consolidated statement of financial position, this Interpretation led to the recognition of higher current liabilities, mainly correlated to the deferral of revenues, the recognition of deferred tax assets and a consequent reduction in equity.

The adoption of the IFRIC 13 and the accounting adjustments made to correct the errors as defined by IAS 8 identified in connection with the Telecom Italia Sparkle case had an effect on the basic and diluted earnings per share in 2008 and in 2007 of less than 0.01 euros.

## NOTE 4 BUSINESS COMBINATIONS

### Business Combinations

**YEAR 2009**

***Acquisition of Intelig Telecomunicações Ltda***

On December 30, 2009, Tim Participaçoes finalized the acquisition of a 100% investment in Intelig Telecomunicações Ltda, the domestic and international Brazilian telecommunications operator for long-distance and data transmission services. That company has been consolidated in the Telecom Italia Group as from the same date.

Specifically, the purchase transaction, through the merger by incorporation of the parent, which owns 100% of Intelig (Holdco Participaçoes, controlled by JVCO), in Tim Participaçoes, had begun on April 16, 2009 by sealing agreements between Tim Participaçoes, its parent Tim Brasil and JVCO Participaçoes (controlled by the Docas group and the indirect parent of Intelig Telecomunicações Ltda).

The finalization of the transaction was subject to a series of conditions including approval by the Brazilian National Regulatory Agency (Anatel) which was obtained on August 16, 2009. The Antitrust Authority was also notified of the transaction and its analysis is still underway.

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The purchase, through the merger transaction, was finalized on December 30, 2009 by assuming a financial debt of Intelig equal to USD 68 million. At the time of the merger, the seller was attributed JVCO shares equal to 5.14% of Tim Participaçoes ordinary and preferred share capital. Moreover, 3% of Docas ordinary shares were transferred to Tim Brasil to guarantee Intelig s financial situation to meet its potential liabilities.

The accounting effects of the business combination are represented by the following:

- goodwill of 96 million euros has been determined provisionally as the definition of the fair values of assets acquired and liabilities assumed is not yet completed, due to the fact the transaction occurred at year end. Consequently the difference between the market value of the shares issued on behalf of the seller as of December 30, 2009 (295 million euros) and the carrying amount of the net assets acquired (199 million euros) has been allocated to goodwill. During 2010 (and in any case within 12 months following the transaction), the provisional amounts of the assets and liabilities recorded at the acquisition date will be adjusted retroactively to take into account their fair value at the acquisition date with the consequent re-determination of the value of goodwill;

- the transaction led to the partial sale (dilution), without loss of control, of a portion of the investment held by the Group in Tim Participações S.A.. Following the early application of IFRS 3R and IAS 27R, the comparison between the stock market valuation of the shares issued on behalf of the seller and the net assets sold led to recognition in equity of a gain of 47 million euros, including 39 million euros for the reclassification, to equity attributable to non-controlling interests, of the transferred portion of the Reserve for exchange differences on translating foreign operations.

***Intelig Telecomunicações Ltda Data at December 30, 2009***

| | | Fair value | Carring Values |
|---|---|---|---|
| | | (millions of euros) | |
| Goodwill | | 96 | |
| Other non-current assets | | 272 | 272 |
| Total current assets | | 131 | 131 |
| **Total assets** | **(A)** | **499** | **403** |
| Total non current liabilities | | 62 | 62 |
| Total current liabilities | | 142 | 142 |
| **Total liabilities** | **(B)** | **204** | **204** |
| **Net assets acquired** | **(A-B)** | **295** | **199** |

Had the purchase transaction been completed as of January 1, 2009, the consolidated financial statements of the Telecom Italia Group would have presented higher revenues of 223 million euros and a lower operating profit by 17 million euros.

**YEAR 2008**

In 2008, there were no transactions entered into of the type of business combinations defined in IFRS 3.

**YEAR 2007**

***Acquisition of AOL Germany***

On February 28, 2007, the Telecom Italia Group finalized the transaction for the acquisition of the AOL internet activities in Germany (broadband and narrowband) from the Time Warner Group. The consideration paid amounted to 669 million euros, including 6 million euros of transaction costs.

The customer relationships will be amortized over 5.4 years while the audience agreements will be amortized over 5 years.

The effect on the net financial position was 666 million euros (669 million euros for the consideration paid net of 3 million euros of cash and cash equivalents acquired).

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*AOL Group Data at February 28, 2007*

| | | Fair value | Carring Values |
|---|---|---|---|
| | | (millions of euros) | |
| Goodwill | | 582 | 70 |
| Other non-current assets | | 154 | 24 |
| Total current assets | | 14 | 14 |
| **Total assets** | **(A)** | **750** | **108** |
| Deferred tax liabilities | | 40 | |
| Total current liabilities | | 41 | 41 |
| **Total liabilities** | **(B)** | **81** | **41** |
| **Net assets acquired** | **(A-B)** | **(*)669** | **67** |
| *(*) of which:* | | | |
| *Acquisition cost* | | *663* | |
| *Transaction costs (taxes, legal fees and other expenses)* | | *6* | |

The original goodwill of 582 million euros was written down in 2008 by 21 million euros, as detailed in the Note *Goodwill* .

**NOTE 5 GOODWILL**

Details of goodwill by business segment and the changes during 2008 and 2009 are presented in the following tables:

| | As of December 31, 2007 | Discontinued Operations | Increase | Decrease | Exchange differences | Reclassification | As of December 31, 2008 |
|---|---|---|---|---|---|---|---|
| | | | | (millions of euros) | | | |
| Domestic | 41,953 | | | | | | 41,953 |
| Brazil | 1,295 | | | | (257) | | 1,038 |
| European BroadBand | 942 | (249) | | (21) | | | 672 |
| Media | 230 | | | (2) | | | 228 |
| **Total** | **44,420** | **(249)** | | **(23)** | **(257)** | | **43,891** |

| | As of December 31, | Discontinued Operations | Increase | Decrease | Exchange differences | Reclassification | As of December 31, 2009 |
|---|---|---|---|---|---|---|---|

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Domestic | 41,953 | | | | | 41,953 |
| Brazil | 1,038 | | 96 | | 307 | 1,441 |
| European BroadBand(*) | 672 | (661) | | | (11) | |
| Media | 228 | | | | | 228 |
| Other Operations(*) | | | | (6) | 11 | 5 |
| **Total** | **43,891** | **(661)** | **96** | **(6)** | **307** | **43,627** |

(*) Following the inclusion of HanseNet in Discontinued operations, the European BroadBand Business Unit is no longer presented; the other companies of that Business Unit have become part of Other Operations.

The decrease of 264 million euros in 2009 is due to the following:

· -661 million euros for the reclassification of goodwill allocated to HanseNet to Discontinued operations/Non-current assets held for sale;

· -6 million euros for the impairment loss, carried out on the basis of the impairment test s results, of the goodwill attributed, within Other operations, to the consolidated company BBNed;

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· +96 million euros for the acquisition of Intelig Telecomunicações Ltda;

· +307 million euros for exchange differences relating to the goodwill of the Brazilian companies.

The goodwill of the Domestic Business Unit at December 31, 2009 includes 421 million euros relating to the International Wholesale cash-generating unit.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units CGU) to December 31, 2009 and 2008 can be summarized as follows:

| | As of December 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment losses | Net carrying amount | Gross carrying amount | Accumulated impairment losses | Net carrying amount |
| | (millions of euros) | | | | | |
| Domestic | (*)42,245 | (*)(292) | 41,953 | (*)42,245 | (*)(292) | 41,953 |
| Brazil | 1,448 | (7) | 1,441 | 1,045 | (7) | 1,038 |
| European BroadBand(**) | | | | 693 | (21) | 672 |
| Media | 228 | | 228 | 228 | | 228 |
| Olivetti | 6 | (6) | | 6 | (6) | |
| Other Operations(**) | 11 | (6) | 5 | | | |
| **Total** | **43,938** | **(311)** | **43,627** | **44,217** | **(326)** | **43,891** |

(*) Includes 282 million euros relating to the settlement with De Agostini in 2004.

(**) Following the inclusion of HanseNet in Discontinued operations, the European BroadBand Business Unit is no longer presented; the other companies of that Business Unit have become part of Other Operations.

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. To test for impairment, goodwill must be allocated to cash-generating units (CGUs) or groups of CGUs according to the maximum aggregation limit which cannot exceed the operating segment in accordance with IFRS 8. Since the Group has adopted a new customer centric organization in the Domestic segment, replacing the previous organization based on the distinction by fixed and mobile technology, goodwill of the CGUs/groups of CGUs which form the Domestic segment was reallocated on the basis of the relative values of the new CGUs/groups of CGUs at January 1, 2009 under IAS 36, paragraph 87. The allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes. The business units (or groups of units) to which goodwill has been allocated are as follows:

| Segment | Business units (or groups of units) |
|---|---|
| Domestic | Core Domestic |

| | |
|---|---|
| | International Wholesale |
| Brazil | Tim Brasil |
| Media | Telecom Italia Media |
| Other Operations | BBNed |

The value used to determine the recoverable amount of the business units (or groups of units) to which goodwill has been allocated is the value in use, with the exception of Telecom Italia Media, for which the stock market capitalization at December 31, 2009 has been used as the fair value of the entity.

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The most representative basic assumptions for the calculation of the value in use of each group of cash-generating units are presented in the following table:

| Core Domestic | International Wholesale | Brazil |
|---|---|---|
| EBITDA margin | EBIT margin (EBIT/revenues) | EBITDA margin |
| (EBITDA/revenues) during the period of the plan | | (EBITDA/revenues) during the period of the plan |
| Growth of EBITDA during the period of the plan | | Growth of EBITDA during the period of the plan |
| Capital expenditures rate | Costs of network user rights (IRUs) and related amortization | Capital expenditures rate |
| (capex/revenues) | | (capex/revenues) |
| | | BRL/euro exchange rate |
| Cost of capital | Cost of capital | Cost of capital |
| Long-term growth rate | Long-term growth rate | Long-term growth rate |

The estimate of the value in use for all the CGUs is based on the data in the 2010-2012 Plan, whose figures reflect the actual 2009 results and rely on the best forecasts formulated by management for the period of the 2010-2012 business plan. The expected flows beyond 2012 have been capitalized in perpetuity. The cash flows used for purposes of the estimate of the value in use are the Cash Net Operating Profit After Tax (Nopat), equal to (Ebitda Capex) x (1-Tc). In the case of the International Wholesale CGU, the valuation is based on the capitalization of the expected result (Nopat) for 2010 only (excluding any expected growth during the period of the plan and considering depreciation and capitalization expenses higher than the planned capex).

The nominal growth rates used to estimate the terminal value are the following (the growth rate of Brazil refers to flows in Brazilian reais):

| Core Domestic | International Wholesale | Brazil |
|---|---|---|
| -0.35% | -0.5% | +2.93% |

Such rates fall within the range of growth rates applied by the analysts who follow Telecom Italia shares (as can be seen in the reports published after the announcement of the Group s third-quarter 2009 results).

The cost of capital was estimated by considering the following:

a) the criterion for the estimate of the cost of capital CAPM Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

b) the Beta coefficient for the Core Domestic CGU and International Wholesale arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (beta coefficient = 0.95);

c) the Beta coefficient for the Brazil CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 1.22);

d) in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business;

e) for the principal operating segments of the group, reference was made to the weighted average cost of capital (WACC) identified by the analysts who follow Telecom Italia shares in their reports published after the announcement of the Group s third-quarter 2009 results.

Since a direct correlation exists between the cost of capital used by analysts and the long-term growth rate (g) projected for purposes of estimating the terminal value, a comparison has also been made in terms of the capitalization rates (WACC-g). In particular, the capitalization rate (WACC-g) of the Core Domestic group of CGUs was used which is equal to the median of the rate used by equity analysts in their reports published after the third quarter of 2009. This rate expresses the implicit growth rate in the terminal value (g) of-0.35%. Since the growth rate in the terminal value depends on the level of capital expenditures (capex) needed to sustain such growth, in order to arrive at the estimate of the resulting cash flows to be capitalized, a capital expenditures level (capex/revenues) was considered that is aligned with the median of the equity analysts (equal to 14.97%). Concerning the

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Brazil CGU, the growth rate in the terminal value used for purposes of testing impairment is lower than the median of the analysts. Prudently, for purposes of estimating the terminal value, the capital expenditures rate (capex/revenues) nevertheless has been used corresponding to the median of the analysts (13.4%).

On the basis of these elements, the post-tax Weighted Average Cost of Capital and the capitalization rate (WACC post-tax g) have been estimated for each business unit (the rates of Brazil refer to flows in Brazilian reais) as follows:

| | Core Domestic | International Wholesale | Brazil |
|---|---|---|---|
| | % | % | % |
| WACC post-tax | 7.60 | 9.28 | 12.92 |
| WACC post-tax g | 7.95 | 9.78 | 9.99 |
| WACC pre-tax | 11.21 | 13.76 | 17.52 |
| WACC pre-tax g | 11.56 | 14.26 | 14.59 |

Values in use in excess of carrying amounts at December 31, 2009 are the following:

| | Core Domestic | International Wholesale | Brazil |
|---|---|---|---|
| | | (millions of euros) | |
| Excess of values in use over carrying amounts | 4,093 | 425 | 364 |

For purposes of the sensitivity analysis for Core Domestic and Brazil, four principal variables have been considered: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA and capital expenditures in proportion to revenues (capex/revenues). For International Wholesale, the sensitivity analysis regarded the cost of capital and the growth rate (g), the EBIT margin (EBIT/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

**Value of key variables used in estimating the value in use**

| | Core Domestic | International Wholesale | Brazil |
|---|---|---|---|
| | % | % | % |
| Pre-tax discount rate | 11.21 | 13.76 | 17.52 |
| Long-term growth rate (g) | -0.35 | -0.5 | 2.93 |
| Compound Annual Growth Rate (CAGR) of EBITDA | 0.72* | NS | 12.79 |
| Capital expenditures rate (Capex/Revenues) | from 14.3 to 15.0 | NS | from 13.4 to 20.4 |
| EBIT Margin (EBIT/Revenues) | NS | 10.61 | NS |

* This growth rate refers to EBITDA removed of the effects indicated in IAS 36.45, letter a.

**Changes in key variables needed to render the recoverable amount equal to the carrying amount**

| | Core Domestic % | International Wholesale % | Brazil % |
|---|---|---|---|
| Pre-tax discount rate | 0.86 | 6.74 | 0.87 |
| Long-term growth rate (g) | -1.08 | -6.74 | -1.13 |
| Compound Annual Growth Rate (CAGR) of EBITDA | -1.98 | NS | -1.11 |
| Capital expenditures rate (Capex/Revenues) | 2.35 | NS | 0.80 |
| EBIT Margin (EBIT/Revenues) | NS | -3.40 | NS |

Since the domestic Central Functions became part of the Core Domestic CGU after the reorganization of the Domestic segment, it was not necessary to carry out a second level impairment test on that segment. Instead, a second level impairment test was made by considering the recoverable amount at the level of the entire Group in

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order to include the Central Functions and the Business Units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the Business Units of the Group has been compared to the carrying amount of the total operating capital referring to the same units/segments. No impairment losses resulted at this level of testing.

## NOTE 6 INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life decreased by 210 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

| | As of December 31, 2007 | Discontinued Operations(1) | Additions | Amortization | Impairment losses/ Reversals | Disposals | Exchange differences | Other changes | As of December 31, 2008 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of euros) | | | | |
| Industrial patents and intellectual property rights | 2,796 | (42) | 1,218 | (1,775) | | (2) | (97) | 522 | 2,620 |
| Concessions, licenses, trademarks and similar rights | 3,089 | (149) | 633 | (331) | | | (178) | 24 | 3,088 |
| Other intangible assets | 363 | (25) | 302 | (342) | | | (11) | 3 | 290 |
| Work in progress and advance payments | 737 | (19) | 361 | | (6) | (1) | (6) | (572) | 494 |
| **Total** | **6,985** | **(235)** | **2,514** | **(2,448)** | **(6)** | **(3)** | **(292)** | **(23)** | **6,492** |

(1) This refers to the Liberty Surf group.

| | As of December 31, 2008 | Discontinued Operations(1) | Additions | Amortization | Impairment losses/ Reversals | Disposals | Exchange differences | Other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of euros) | | | | |
| Industrial patents and intellectual property rights | 2,620 | (48) | 1,138 | (1,662) | | (4) | 116 | 349 | 2,509 |
| Concessions, licenses, trademarks and similar rights | 3,088 | (189) | 114 | (272) | | (4) | 216 | 44 | 2,997 |
| Other intangible assets | 290 | (101) | 348 | (317) | | | 15 | 5 | 240 |
| Work in progress and advance payments | 494 | | 417 | | | (36) | 5 | (344) | 536 |
| **Total** | **6,492** | **(338)** | **2,017** | **(2,251)** | | **(44)** | **352** | **54** | **6,282** |

(1) This refers to HanseNet Telekommunikation GmbH.

Additions in 2009 include 291 million euros of internally generated assets (312 million euros in 2008. Further details are provided in the Note *Internally generated assets* ). Other changes refer mainly to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

**Industrial patents and intellectual property rights** at December 31, 2009 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the period of useful benefit, estimated in three years). They mainly refer to Telecom Italia S.p.A. (1,908 million euros) and the Brazil Business Unit (504 million euros).

**Concessions, licenses, trademarks and similar rights** at December 31, 2009 mainly refer to:

- the unamortized cost of TLC licenses (1,720 million euros for Telecom Italia S.p.A. and 899 million euros for the Brazil Business Unit);
- Indefeasible Rights of Use-IRU (195 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale);
- TV frequencies of the Media Business Unit (130 million euros).

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The unamortized cost of telephone licenses totaling 2,619 million euros (amortized on a straight-line basis) refers to the following:

- licenses of Telecom Italia S.p.A.:

  UMTS, 1,700 million euros, including the ex-IPSE license for 89 million euros regarding the 2100 MHz frequency purchased in 2009, expiring 2021 (amortized over 18 years);

  Wireless Local Loop, 8 million euros, expiring 2021 (amortized over 15 years);

  Wi-Max, 12 million euros, expiring 2023 (amortized over 15 years);

- licenses of the Tim Brasil group:

  GSM and 3G (UMTS), 819 million euros, expiring between 2012 and 2023 (amortized between 6-15 years);

  TDMA, 70 million euros, expiring 2012 (amortized over approximately 14 years);

  domestic and international fixed telephony and data transmission, 10 million euros, expiring between 2019 and 2027 (amortized over 20 years), mainly acquired through the consolidation of Intelig Telecomunicações Ltda.

**Other intangible assets** at December 31, 2009 mainly include 233 million euros for the capitalization of subscriber acquisition costs amortized over the minimum contract period (12 or 24 months) and relate mainly to sales campaigns of Telecom Italia S.p.A. (148 million euros) and the Brazil Business Unit (85 million euros).

Amortization and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2009 and 2008 can be summarized as follows:

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment losses | Accumulated amortization | Net carrying amount |
| | (millions of euros) | | | |
| Industrial patents and intellectual property rights | 12,580 | (14) | (10,057) | 2,509 |
| Concessions, licenses, trademarks and similar rights | 5,066 | (233) | (1,836) | 2,997 |
| Other intangible assets | 609 | | (369) | 240 |

| | | | | |
|---|---|---|---|---|
| Work in progress and advance payments | 542 | (6) | | 536 |
| **Total** | **18,797** | **(253)** | **(12,262)** | **6,282** |

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Accumulated impairment losses** | **Accumulated amortization** | **Net carrying amount** |
| | (millions of euros) | | | |
| Industrial patents and intellectual property rights | 13,635 | (15) | (11,000) | 2,620 |
| Concessions, licenses, trademarks and similar rights | 4,889 | (241) | (1,560) | 3,088 |
| Other intangible assets | 992 | | (702) | 290 |
| Work in progress and advance payments | 505 | (11) | | 494 |
| **Total** | **20,021** | **(267)** | **(13,262)** | **6,492** |

The impairment losses on Concessions, licenses, trademarks and similar rights refer to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables relating to the international connections acquired by the Latin American Nautilus group.

Such impairments, principally relating to the years prior to 2004, were the result of the altered and shrunken market value of international broadband compared to the expectations anticipated at the historical date of those investments. Impairments decreased from 241 million euros to 233 million euros solely as a result of the translation of the U.S. dollar financial statements to euro.

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The gross carrying amount and the relative accumulated amortization of intangible assets principally comprises the reduction in the gross carrying amount and relative accumulated amortization taken up by Telecom Italia S.p.A. on Industrial patents and intellectual property rights for the retirement of software applications releases that are no longer in use or completely re-written or completely amortized for a total of approximately 3,000 million euros.

The change in the gross carrying amount and the relative accumulated amortization of other intangible assets is mainly due to the accounting elimination of capitalized subscribers acquisition costs following the completion of the amortization process.

**NOTE 7 TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)**

***Property, plant and equipment owned***

Property, plant and equipment owned decreased by 646 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

| | As of December 31, 2007 | Discontinued operations(1) | Additions | Depreciation | Impairment losses / Reversals | Disposals | Exchange differences | Other changes | As of December 31, 2008 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of euros) | | | | |
| Land | 131 | | | | | (2) | | (6) | 123 |
| Buildings (civil and industrial) | 551 | | 4 | (43) | | (1) | (9) | (9) | 493 |
| Plant and equipment | 12,957 | (129) | 2,224 | (2,850) | | (6) | (279) | 120 | 12,037 |
| Manufacturing and distribution equipment | 48 | | 10 | (23) | | | | 3 | 38 |
| Ships | 41 | | | (8) | | | | | 33 |
| Other | 965 | | 303 | (407) | (2) | (8) | (54) | 60 | 857 |
| Construction in progress and advance payments | 791 | (17) | 223 | | (4) | | (20) | (302) | 671 |
| **Total** | **15,484** | **(146)** | **2,764** | **(3,331)** | **(6)** | **(17)** | **(362)** | **(134)** | **14,252** |

(1) This refers to Liberty Surf group.

| | As of December 31, 2008 | Discontinued operations(1) | Additions | Depreciation | Impairment losses / Reversals | Disposals | Exchange differences | Other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of euros) | | | | |
| Land | 123 | | | | | (1) | | 3 | 125 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Buildings (civil and industrial) | 493 | | 5 | (45) | | (2) | 8 | 52 | 511 |
| Plant and equipment | 12,037 | (460) | 1,853 | (2,780) | | (23) | 325 | 510 | 11,462 |
| Manufacturing and distribution equipment | 38 | | 7 | (16) | | | | 2 | 31 |
| Ships | 33 | | | (7) | | | | | 26 |
| Other | 857 | (31) | 310 | (328) | | (15) | 60 | (235) | 618 |
| Construction in progress and advance payments | 671 | (18) | 292 | | (5) | (20) | 38 | (125) | 833 |
| **Total** | **14,252** | **(509)** | **2,467** | **(3,176)** | **(5)** | **(61)** | **431** | **207** | **13,606** |

(1) This refers to HanseNet Telekommunikation GmbH.

Additions in 2009 include 224 million euros of internally generated assets (194 million euros in 2008). Further details are provided in the Note *Internally generated assets* .

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Other changes in 2009 mainly refer to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates for the years 2009 and 2008:

| | |
|---|---|
| Buildings (civil and industrial) | 3%-4% |
| Plant and equipment | 3%-33% |
| Manufacturing and distribution equipment | 20%-25% |
| Ships | 9% |
| Other | 11%-33% |

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2009 and 2008 can be summarized as follows:

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment losses | Accumulated depreciation | Net carrying amount |
| | (millions of euros) | | | |
| Land | 125 | | | 125 |
| Buildings (civil and industrial) | 1,372 | (1) | (860) | 511 |
| Plant and equipment | 60,956 | (66) | (49,428) | 11,462 |
| Manufacturing and distribution equipment | 305 | (1) | (273) | 31 |
| Ships | 143 | (11) | (106) | 26 |
| Other | 3,630 | (8) | (3,004) | 618 |
| Construction in progress and advance payments | 845 | (12) | | 833 |
| **Total** | **67,376** | **(99)** | **(53,671)** | **13,606** |

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment losses | Accumulated depreciation | Net carrying amount |
| | (millions of euros) | | | |
| Land | 123 | | | 123 |
| Buildings (civil and industrial) | 1,291 | (1) | (797) | 493 |
| Plant and equipment | 58,999 | (70) | (46,892) | 12,037 |
| Manufacturing and distribution equipment | 422 | (1) | (383) | 38 |
| Ships | 143 | (11) | (99) | 33 |
| Other | 3,882 | (8) | (3,017) | 857 |
| Construction in progress and advance payments | 678 | (7) | | 671 |

| | | | | |
|---|---|---|---|---|
| **Total** | **65,538** | **(98)** | **(51,188)** | **14,252** |

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***Assets held under finance leases***

Assets held under finance leases decreased by 114 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

| | As of December 31, 2007 | Discontinued Operations | Additions | Depreciation | Other changes | As of December 31, 2008 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Buildings (civil and industrial) | 1,361 | | 21 | (104) | 24 | 1,302 |
| Plant and equipment | | | 40 | (3) | | 37 |
| Aircrafts | 6 | | | (3) | | 3 |
| Other | 30 | | 3 | (17) | | 16 |
| Construction in progress and advance payments | 53 | | 23 | | (24) | 52 |
| **Total** | **1,450** | | **87** | **(127)** | | **1,410** |

| | As of December 31, 2008 | Discontinued Operations(1) | Additions | Depreciation | Other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Buildings (civil and industrial) | 1,302 | | 30 | (109) | 23 | 1,246 |
| Plant and equipment | 37 | (37) | | | | |
| Aircrafts | 3 | | | (3) | | |
| Other | 16 | | 3 | (12) | | 7 |
| Construction in progress and advance payments | 52 | | 26 | | (35) | 43 |
| **Total** | **1,410** | **(37)** | **59** | **(124)** | **(12)** | **1,296** |

(1) This refers to HanseNet Telekommunikation GmbH.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2009 and 2008 can be summarized as follows:

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment | Accumulated depreciation | Net carrying amount |

| | | losses | | |
|---|---|---|---|---|
| | | (millions of euros) | | |
| Buildings (civil and industrial) | 2,068 | (27) | (795) | 1,246 |
| Plant and equipment | | | | |
| Aircrafts | 30 | | (30) | |
| Other | 70 | | (63) | 7 |
| Construction in progress and advance payments | 43 | | | 43 |
| **Total** | **2,211** | **(27)** | **(888)** | **1,296** |

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated impairment losses | Accumulated depreciation | Net carrying amount |
| | | (millions of euros) | | |
| Buildings (civil and industrial) | 2,015 | (27) | (686) | 1,302 |
| Plant and equipment | 49 | | (12) | 37 |
| Aircrafts | 30 | | (27) | 3 |
| Other | 170 | | (154) | 16 |
| Construction in progress and advance payments | 52 | | | 52 |
| **Total** | **2,316** | **(27)** | **(879)** | **1,410** |

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At December 31, 2009 and 2008, lease payments due in future years and their present value are as follows:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| | (millions of euros) | | | |
| Within 1 year | 231 | 219 | 219 | 218 |
| From 2 to 5 years | 809 | 614 | 789 | 632 |
| After 5 years | 1,262 | 636 | 1,434 | 737 |
| **Total** | **2,302** | **1,469** | **2,442** | **1,587** |

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Future minimum lease payments | 2,302 | 2,442 |
| Interest portion | (833) | (855) |
| **Present value of lease payments** | **1,469** | **1,587** |
| Finance lease liabilities | 1,815 | 1,987 |
| Financial receivables for lessors net investments | (346) | (400) |
| **Total net finance lease liabilities** | **1,469** | **1,587** |

**NOTE 8 OTHER NON-CURRENT ASSETS**

Other non-current assets decreased by 1,225 million euros compared to December 31, 2008 and include:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | | *Of which Financial Instruments* | | *Of which Financial Instruments* |
| | (millions of euros) | | | |
| Investments accounted for using the equity method: | | | | |
| Associates | 351 | | 435 | |
| Joint ventures | 84 | | 61 | |
| | **435** | | **496** | |

| | | | | |
|---|---|---|---|---|
| Other investments | **53** | ***53*** | **57** | ***57*** |
| | | | | |
| Securities, financial receivables and other non-current financial assets: | | | | |
| Securities other than investments | 15 | *15* | 15 | *15* |
| Financial receivables and other non-current financial assets | 1,092 | *1,092* | 2,648 | *2,648* |
| | | | | |
| | **1,107** | ***1,107*** | **2,663** | ***2,663*** |
| Miscellaneous receivables and other non-current assets: | | | | |
| Miscellaneous receivables | 385 | *280* | 170 | *99* |
| Medium/long-term prepaid expenses | 508 | | 524 | |
| | | | | |
| | **893** | ***280*** | **694** | ***99*** |
| | | | | |
| Deferred tax assets(*) | **1,199** | | **1,002** | |
| | | | | |
| **Total** | **3,687** | ***1,440*** | **4,912** | ***2,819*** |

(*) Analyzed in the Note *Deferred tax assets and deferred tax liabilities* .

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Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

**Investments in associates** accounted for using the equity method are detailed as follows:

| | As of December 31, 2007 | Investments | Sales and capital reimbursements | Valuation using the equity method | Reclassifications and other changes | As of December 31, 2008 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| ETECSA | 297 | | | 16 | | 313 |
| Italtel group | 43 | | | (4) | | 39 |
| Tiglio I | 60 | | | (6) | | 54 |
| Tiglio II | 4 | | | | | 4 |
| Other | 42 | | (2) | (6) | (9) | 25 |
| **Total** | **446** | | **(2)** | | **(9)** | **435** |

| | As of December 31, 2008 | Investments | Sales and capital reimbursements | Valuation using the equity method | Reclassifications and other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| ETECSA | 313 | | | (24) | | 289 |
| Italtel group | 39 | | | | (39) | |
| Tiglio I | 54 | | (7) | (10) | | 37 |
| Tiglio II | 4 | 3 | | (6) | | 1 |
| Other | 25 | 2 | | (3) | | 24 |
| **Total** | **435** | **5** | **(7)** | **(43)** | **(39)** | **351** |

**Investments in associates** accounted for using the equity method decreased due to the reclassification of the Italtel group (39 million euros) to **other investments** since the shareholders agreements ended at the close of 2008 and were not renewed.

The value of the investment in ETECSA includes 64 million euros of residual goodwill which arose when the company was acquired and is the difference between the investment value and corresponding share of net equity. Furthermore, Exchange differences on translating foreign operations in the Equity attributable to owners of the Parent include a cumulative negative amount of 92 million euros relating to ETECSA.

Investments accounted for using the equity method comprise the share of profits (losses) for the year and exchange differences on translating the financial statements of foreign operations. The main impact on the 2009 separate consolidated income statement relating only to the share of profits and losses specifically came from ETECSA (profits of 54 million euros), Tiglio I and Tiglio II (losses of 16 million euros) and other companies (losses of 3 million euros); the impact in 2008 related to ETECSA (profits of 53 million euros), Tiglio I and Tiglio II (losses of 7 million euros) and other companies (losses of 6 million euros).

Aggregate 2009 and 2008 data relating to associates, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The share of profits (losses) for the year refers, for consolidated groups, to the Parent and Non-controlling interests.

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Total assets | 613 | 868 |
| Total liabilities | 317 | 480 |
| Revenues | 178 | 260 |
| Profits for the year | 39 | 41 |

**Investments in joint ventures** accounted for using the equity method include the investments in Sofora Telecomunicaciones S.A. and Consorzio Tema Mobility in which 50% stakes are held. The value of the investment

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in Sofora Telecomunicaciones S.A. increased from 60.6 million euros to 83.3 million euros as a result of the share of the 2009 result (32 million euros) net of the negative change (10 million euros) of the exchange differences on translating foreign operations (negative for 17 million euros at December 31, 2009, negative for 7 million euros at December 31, 2008).

The most significant aggregate 2009 and 2008 data, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The share of profits (losses) for the year refers, for consolidated groups, to the Parent and Non-controlling interests.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Joint venture data | | Telecom Italia Group s share 50% | Joint venture data | | Telecom Italia Group s share 50% |
| | Sofora group | Other companies | | Sofora group | Other companies | |
| | (millions of euros) | | | | | |
| Non-current assets | 1,404 | | 702 | 1,458 | | 729 |
| Current assets | 669 | 1 | 335 | 681 | 1 | 341 |
| **Total assets** | **2,073** | **1** | **1,037** | **2,139** | **1** | **1,070** |
| Non-current liabilities | 382 | | 191 | 570 | | 285 |
| Current liabilities | 900 | | 450 | 937 | | 468 |
| **Total liabilities** | **1,282** | | **641** | **1,507** | | **753** |
| Revenues | 2,347 | | 1,173 | 2,283 | | 1,142 |
| Operating profit | 505 | | 253 | 407 | | 204 |
| Profit before tax | 410 | | 205 | 315 | | 157 |
| **Profit (loss) for the year** | **253** | | **127** | **195** | | **98** |
| *Attributable to Non-controlling interests* | *188* | | *95* | *147* | | *74* |
| *Attributable to owners of the Parent* | *65* | | *32* | *48* | | *24* |

The list of companies accounted for using the equity method is presented in the Note *List of companies of the Telecom Italia Group* .

**Other investments** refer to the following:

| | As of December 31, 2007 | Investments | Sales and capital reimbursements | Valuation at fair value | Reclassifications and other changes | As of December 31, 2008 |
|---|---|---|---|---|---|---|
| | (millions of euros) | | | | | |
| Assicurazioni Generali | 5 | | | (2) | | 3 |
| DAHLIA TV S.r.l. | | 5 | | | | 5 |
| Fin. Priv. | 15 | | | | | 15 |
| New Satellite Radio | 7 | | | | | 7 |
| Sia SSB | 11 | | | | | 11 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | 19 | 1 | (1) | | (3) | 16 |
| **Total** | **57** | **6** | **(1)** | **(2)** | **(3)** | **57** |

| | As of December 31, 2008 | Investments | Sales and capital reimbursements | Valuation at fair value | Reclassifications and other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Assicurazioni Generali | 3 | | | | | 3 |
| DAHLIA TV S.r.l. | 5 | | | | | 5 |
| Fin. Priv. | 15 | | | 3 | | 18 |
| New Satellite Radio | 7 | | | | (7) | |
| Sia SSB | 11 | | | | | 11 |
| Other | 16 | 1 | (1) | | | 16 |
| **Total** | **57** | **1** | **(1)** | **3** | **(7)** | **53** |

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The 19.37% investment in Italtel group (39 million euros at December 31, 2008) has been reclassified from investments in associates to other investments recorded at cost. The value was written off on the basis of a valuation supported by a specific report on its estimated value, conducted by an independent appraiser.

**Financial receivables and other non-current financial assets** are composed as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Financial receivables for lessors net investments | 228 | 257 |
| Loans to employees | 54 | 59 |
| Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature | 792 | 2,310 |
| Other financial receivables | 18 | 22 |
| **Total** | **1,092** | **2,648** |

Financial receivables for lessors net investments refer to:

- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- medium/long-term portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering of accessory services under the full rent formula.

The total amount (non-current and current portion) of these receivables is as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Non-current portion | 228 | 257 |
| Current portion | 118 | 143 |
| **Total** | **346** | **400** |

Hedging derivatives relating to hedged items classified in non-current assets and liabilities of a financial nature refer to the mark-to-market component.

Additional information is provided in the Note *Derivatives* .

**Miscellaneous receivables and other non-current assets** amount to 893 million euros (694 million euros at December 31, 2008).

They include, among others:

- the fair value of the two call options on 50% of Sofora Telecomunicaçiones S.A. share capital for 130 million euros (70 million euros at December 31, 2008);

- medium/long-term prepaid expenses of 508 million euros (524 million euros at December 31, 2008) relating to the deferral of costs in connection with the recognition of revenues.

**NOTE 9 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES**

The net balance is composed as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Deferred tax assets | 1,199 | 1,002 |
| Deferred tax liabilities | (160) | (386) |
| **Total** | **1,039** | **616** |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

Since the presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Deferred tax assets | 1,308 | 1,194 |
| Deferred tax liabilities | (269) | (578) |
| **Total** | **1,039** | **616** |

The change in deferred tax assets and liabilities is a positive 423 million euros and is due to:

- reclassification of the deferred net tax liabilities of HanseNet to Non-current assets held for sale (+9 million euros);
- utilizations and new accruals of deferred tax assets and liabilities which have given rise to a tax benefit in the income statement for the year ended December 31, 2009 (+31 million euros);
- tax effect taken directly to equity in 2009, mainly referring to the fair value adjustment to derivatives (+367 million euros);
- positive exchange difference (+16 million euros).

Upon presentation of the tax return for the year 2008, as provided by the Legislative Decree 185 dated November 29, 2008, the Company decided to adjust the tax basis of certain assets and liabilities at January 1, 2009, that fall under the so called derivation regime , to be consistent with the recorded IFRS basis of those assets and liabilities at the same date, and to reverse the resulting net deductible differences over five years in equal amounts beginning in 2009. This will result in a reversal of net deferred tax assets of approximately 60 million euros per year over the next four years.

The temporary differences which make up this line item at December 31, 2009 and 2008 are the following:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| **Deferred tax assets:** | | |
| · Derivatives | 321 | 201 |
| · Provision for bad debts | 208 | 187 |
| · Provisions for risk and charges | 148 | 169 |
| · Sale and leaseback transactions on properties | 117 | 144 |
| · Provision for pension fund integration (under Law No. 58/92) | 73 | 103 |

| | | |
|---|---|---|
| · Tax loss carryforwards | 104 | 80 |
| · Provision for restoration costs | 53 | 67 |
| · Revenue recognition | 65 | 76 |
| · Capital grants | 17 | 25 |
| · Unrealized intra-group gains | 10 | 15 |
| · Impairment losses on investments and other | 6 | 4 |
| · Taxed amortization and depreciation | 134 | 78 |
| · Other deferred tax assets | 52 | 45 |
| **Total** | **1,308** | **1,194** |
| **Deferred tax liabilities:** | | |
| · Derivatives | (97) | (339) |
| · Business combinations | (25) | (52) |
| · Deferred gains | (19) | (47) |
| · Accelerated depreciation | (38) | (38) |
| · Discounting of provision for employee severance indemnities | (31) | (37) |
| · Bonds | (16) | (12) |
| · Other deferred tax liabilities | (43) | (53) |
| **Total** | **(269)** | **(578)** |
| **Total net deferred tax assets (liabilities)** | **1,039** | **616** |

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At December 31, 2009, the Group has unused tax loss carryforwards for 5,777 million euros, mainly referring to certain foreign companies such as the Tim Brasil group, the Latin American Nautilus group and the companies Telecom Italia Sparkle Luxembourg, Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

| Year of expiration | (millions of euros) |
|---|---|
| 2010 | 231 |
| 2011 | 175 |
| 2012 | 18 |
| 2013 | 10 |
| 2014 | 11 |
| Expiration beyond 2014 | 16 |
| Without expiration | 5,316 |
| **Total unused tax loss carryforwards** | **5,777** |

Tax loss carryforwards which are considered in the calculation of deferred tax assets amount to 367 million euros at December 31, 2009 (279 million euros at December 31, 2008) and mainly refer to the TIM Brasil group, the LAN group and the company Telecom Italia International.

Instead, deferred tax assets of 1,686 million euros (1,525 million euros at December 31, 2008) have not been recognized on 5,410 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable.

At December 31, 2009, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries and associates, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.

**NOTE 10 INVENTORIES**

Inventories increased by 29 million euros compared to December 31, 2008. The composition is as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Raw materials and supplies | 7 | 7 |
| Work in progress and semi-finished products | 4 | 7 |
| Finished goods | 397 | 365 |
| **Total** | **408** | **379** |

Inventories are held by Telecom Italia S.p.A. per 167 million euros (115 million euros at December 31, 2008) and the companies in the Brazil Business Unit in the amount of 162 million euros (169 million euros at December 31, 2008). They mainly consist of equipment, handsets and relative fixed-line and mobile telecommunications accessories. Another 56 million euros (71 million euros at December 31, 2008) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

Inventories written down in 2009 total 29 million euros (24 million euros in 2008) and mainly relate to the adjustment of mobile handsets to estimated realizable value.

No inventories are pledged as collateral.

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## NOTE 11 TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased 639 million euros compared to December 31, 2008 and are composed of the following:

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2009 | *Of which Financial Instruments* | 2008 | *Of which Financial Instruments* |
| | (millions of euros) | | | |
| Amounts due on construction contracts | **25** | | **26** | |
| Trade receivables: | | | | |
| · Receivables from customers | 4,440 | *4,440* | 4,780 | *4,780* |
| · Receivables from other telecommunication operators | 1,688 | *1,688* | 1,693 | *1,693* |
| | **6,128** | ***6,128*** | **6,473** | ***6,473*** |
| Miscellaneous receivables and other current assets: | | | | |
| · Other receivables | 914 | *247* | 1,198 | *510* |
| · Trade and miscellaneous prepaid expenses | 395 | | 404 | |
| | **1,309** | ***247*** | **1,602** | ***510*** |
| **Total** | **7,462** | ***6,375*** | **8,101** | ***6,983*** |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

The following analysis presents the ageing of the Financial Instruments enclosed between trade and miscellaneous receivables and other current assets at December 31, 2009 and December 31, 2008.

| | | | Overdue | | | |
|---|---|---|---|---|---|---|
| | As of December 31, 2009 | Not overdue | 0-90 days | 91-180 days | 181-365 days | More than 365 days |
| | | | (millions of euros) | | | |
| Trade and miscellaneous receivables and other current assets | 6,375 | 4,877 | 467 | 201 | 218 | 612 |

| | | | Overdue | | |
|---|---|---|---|---|---|
| | As of December 31, | Not overdue | 0-90 days | 91-180 days | 181-365 days |

| | 2008 | | | | | More than 365 days |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Trade and miscellaneous receivables and other current assets | 6,983 | 5,261 | 439 | 333 | 259 | 691 |

The significant reduction in the oldest overdue categories; in particular, the contraction in receivables overdue more than 365 days is also due to the closing of disputes with other operators.

**Trade receivables** amount to 6,128 million euros (6,473 million euros at December 31, 2008) and are net of the provision for bad debts of 976 million euros (828 million euros at December 31, 2008).

Trade receivables specifically refer to Telecom Italia S.p.A. (4,553 million euros) and the Brazil Business Unit (999 million euros).

Trade receivables include 26 million euros (18 million euros at December 31, 2008) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU.

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Movements in the provision for bad debts are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| **At January 1** | **828** | **1,064** |
| Discontinued operations | (48) | (12) |
| Accruals charged to income statement | 449 | 585 |
| Utilization | (434) | (776) |
| Exchange differences and other movements | 181 | (33) |
| **At December 31** | **976** | **828** |

The provision relates to individual writedowns in the amount of 461 million euros (437 million euros at December 31, 2008) and general writedowns in the amount of 515 million euros (391 million euros at December 31, 2008).

Accruals are made for specific credit positions with particular risks. Amounts accrued in respect of receivable positions without such features are effected on the basis of the average estimated uncollectibility by customer segment.

Other changes refer mainly to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

**Other receivables** amount to 914 million euros (1,198 million euros at December 31, 2008) and are net of a provision for bad debts of 74 million euros (60 million euros at December 31, 2008). Details are as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Advances to suppliers | 72 | 99 |
| Receivables from employees | 27 | 27 |
| Tax receivables | 378 | 239 |
| Sundry receivables | 437 | 833 |
| **Total** | **914** | **1,198** |

**Sundry receivables** mainly include:

- receivables from factoring companies (113 million euros);

- receivable for the Italian Universal Service (53 million euros);

- receivables from the Italian state and the European Union (30 million euros) for grants regarding research and training projects.

**Trade and miscellaneous prepaid expenses** principally pertain to building leases, rentals and maintenance as well as the deferral of costs referring to the recognition of revenues.

**NOTE 12 CURRENT INCOME TAX RECEIVABLES**

Current income tax receivables amount to 79 million euros (73 million euros at December 31, 2008) and mainly include the receivables of the Tim Brasil group companies (59 million euros), as well as Ires and Irap taxes paid in 2009 by Telecom Italia Sparkle in excess of the current Ires and Irap taxes due (14 million euros).

**NOTE 13 INVESTMENTS (CURRENT ASSETS)**

Investments (current assets) amount to 39 million euros and refer to the investment held in Entel Bolivia S.A., classified as an available-for-sale financial asset under current assets starting in 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the company s shares.

Further details on the nationalization of Entel Bolivia and the resulting dispute with the Bolivian Government is provided in the Note *Contingent liabilities, other information, commitments and guarantees* .

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**NOTE 14 SECURITIES OTHER THAN INVESTMENTS (CURRENT ASSETS)**

Securities other than investments (current assets) increased 1,658 million euros compared to December 31, 2008. The composition is as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Held-to-maturity financial assets: | | |
| · Unlisted securities other than investments | | |
| Available-for-sale financial assets: | | |
| · Listed securities other than investments, due beyond 3 months | 1,093 | 74 |
| Financial assets at fair value through profit or loss: | | |
| · Listed securities other than investments held for trading | 750 | 111 |
| **Total** | **1,843** | **185** |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

Listed securities other than investments available-for-sale, due after three months include 900 million euros (nominal value) of Italian Treasury Bills (with an A rating by S&P s) and 112 million euros (nominal value) of bonds issued by counterparts with at least a BBB rating and with different maturity dates and all actively traded, therefore, readily convertible into cash.

Listed securities other than investments held for trading refer to investments in a Belgian-registered monetary SICAV for 350 million euros (111 million euros at December 31, 2008) with at least an A rating by S&P s, 200 million euros in a monetary fund and 200 million euros in a government fund, both with AAA ratings by S&P s, and managed by a leading international credit institution.

**NOTE 15 FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS**

Financial receivables and other current financial assets increased by 624 million euros compared to December 31, 2008. Details are as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Financial receivables for lessors net investments | 118 | 143 |
| Receivables from employees | 9 | 13 |
| Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature | 310 | 180 |

| | | |
|---|---|---|
| Non hedging derivatives | 32 | 122 |
| Other short-term financial receivables | 646 | 33 |
| **Total** | **1,115** | **491** |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

Financial receivables for lessors net investments refer to:

- the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- the current portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering of accessory services under the full rent formula.

Hedging derivatives relating to hedged items classified as current assets of a financial nature refer to accrued income on the derivatives. Further details are provided in the Note *Derivatives* .

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Other short-term financial receivables include 638 million euros of loans made by Group companies to HanseNet Telekommunikation, and fully repaid upon the disposal of the company which occurred on February 16, 2010.

**NOTE 16 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents increased by 88 million euros compared to December 31, 2008. Details are as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Liquid assets with banks, financial institutions and post offices | 4,613 | 4,418 |
| Checks, cash and other receivables and deposits for cash flexibility | 1 | 9 |
| Receivables from the sale of securities convertible to cash within 3 months | | 493 |
| Securities other than investments (due within 3 months) | 890 | 496 |
| **Total** | **5,504** | **5,416** |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

As of December 31, 2009 cash and cash equivalents have the following attributes:

- maturities: all deposits have a maximum maturity date of one month;
- counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least A;
- country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 20 million euros (100 million euros at December 31, 2008) of euro commercial paper, maturing within three months, with issuers that all have A- ratings, and 857 million euros (391 million euros at December 31, 2008) of Brazilian certificates of deposit (*Certificado de Depósito Bancário*) with maturities within three months, from local banking and financial institutions with at least an A rating.

**NOTE 17 DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

In the statement of financial position at December 31, 2009, the line items Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale include the data of HanseNet Telekommunikation GmbH. At December 31, 2008, Discontinued operations/Non-current assets held for sale had included the investments in Luna Rossa Challenge 2007 and Luna Rossa Trademark, both disposed of during 2009, the total value of which was 9 million euros.

In the income statements and the statements of cash flows for the years 2009 and 2008, the respective line items Profit (loss) from Discontinued operations/Non-current assets held for sale and Cash flows from (used in) Discontinued operations/non-current assets held for sale refer to HanseNet. In 2008, such line items had also included Liberty Surf group s contribution on consolidation and the effects of the relative sale, which took place in August 2008.

**Sale agreements in 2009**

***HanseNet Telekommunikation GmbH***

In keeping with the focus on the core markets as announced in December 2008, the board of directors meeting held on November 5, 2009 approved the disposal of HanseNet Telekommunikation GmbH. HanseNet (a wholly-owned subsidiary of Telecom Italia S.p.A. through its holding Telecom Italia Deutschland Holding GmbH) is an operator in the retail broadband market in Germany.

The competitive scenario of the German broadband market and its future prospects, given the size and infrastructural features of competitors, would have made it difficult for the company to acquire a strategic

positioning that would be successful in the long term in the absence of huge investments with an uncertain return. For this reason, therefore, the disposal responds to the strategic rationale of financial discipline aimed at strengthening cash flows, with focus on the core markets.

The consideration on the sale negotiated by management of the Company was based on an enterprise value of 900 million euros.

The estimated economic impact of the sale, based on the enterprise value, was recorded in the consolidated financial statements at December 31, 2009.

Specifically, the transaction resulted in a negative impact on the consolidated result equal to 597 million euros including the goodwill impairment loss on the company of 558 million euros and also transaction costs and accruals to provisions. The sale was concluded on February 16, 2010.

**Divestitures in 2008**

***Liberty Surf group***

On August 26, 2008, the Group finalized the sale to Iliad S.A. of the entire investment held by Telecom Italia in Liberty Surf Group S.A.S., the Internet Service Provider operating in France mainly with Telecom Italia s Alice brand.

In accordance with post-closing contractual price adjustment mechanisms, on November 14, 2008, a Settlement Agreement was signed on the basis of which Telecom Italia paid Iliad a total amount of 10 million euros for the post-closing price adjustment based on the net financial position and the number of customers at the closing date.

The effects of the sale on the consolidated financial statements at December 31, 2008, calculated on the basis of the enterprise value of the sale, equal to 800 million euros less 10 million euros relating to the adjusted post-closing price and a Net financial debt of the company estimated at the time of sale at approximately 300 million euros, was:

- a reduction in net financial debt of the Telecom Italia Group of 744 million euros, including the deconsolidation of the net financial debt of the subsidiary sold;
- a positive impact on the consolidated income statement of 160 million euros, net of transaction costs.

Furthermore, at the time of sale, on August 26, 2008, a contract was signed for the supply of technical services to Liberty Surf group by Telecom Italia S.p.A. under which Telecom Italia agreed to supply, for 12 months extendable to 18 months, IT and network services and technical support for the migration of the customer base.

***

In the consolidated statement of financial position, the Discontinued operations/Non-current assets held for sale and the Liabilities directly associated with Discontinued operations/Non-current assets held for sale can be represented as follow:

| | Year ended December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| **Discontinued operations/non-current assets held for sale** | | |
| Of financial nature | 81 | |
| Of non financial nature | 1,152 | 9 |
| **Total** | **1,233** | **9** |
| **Liabilities directly associated with Discontinued operations/Non-current assets held for sale** | | |
| Of financial nature | 659 | |
| Of non financial nature | 308 | |
| **Total** | **967** | |

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Financial assets are detailed as follows:

| | Year ended December 31, 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| Non current financial assets | | |
| Current financial assets | 81 | |
| **Total** | **81** | |

Non financial assets are detailed as follows:

| | Year ended December 31, 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| Non current assets | 980 | |
| Current assets | 172 | 9 |
| **Total** | **1,152** | **9** |

Non current assets includes the remaining goodwill attributed to HanseNet, equal to 103 millions euros.

Financial liabilities are detailed as follows:

| | Year ended December 31, 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| Non current financial liabilities | 203 | |
| Current financial assets | 456 | |
| **Total** | **659** | |

Non financial liabilities are detailed as follows:

| | Year ended December 31, 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |

| | |
|---|---|
| Non current liabilities | 39 |
| Current liabilities | 269 |
| **Total** | **308** |

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The impact on the separate consolidated income statement in the line item Discontinued operations/Non-current assets held for sale is as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | | (millions of euros) | |
| **Economic impact from Discontinued operations/Non current assets held for sale:** | | | | |
| Revenues | | 1,161 | 1,500 | 1,469 |
| Other income | | 2 | 24 | 38 |
| Operating expenses | | (898) | (1,330) | (1,276) |
| Depreciation and amortization, capital gains/losses and impairment losses on non-current assets | | (271) | (346) | (296) |
| Writedown of goodwill allocated to Hansenet | | (558) | (21) | |
| **Operating profit** | | **(564)** | **(173)** | **(65)** |
| Finance income (expenses) | | (24) | (61) | (52) |
| **Profit (loss) from Discontinued operations/Non-current assets held for sale before taxes** | | **(588)** | **(234)** | **(117)** |
| Income tax expense | | 7 | 36 | (18) |
| **Profit (loss) from Discontinued operations/Non-current assets held for sale after tax** | **(A)** | **(581)** | **(198)** | **(135)** |
| **Economic effect on the selling companies:** | | | | |
| Net gains in connection with the sale of Liberty Surf | | | 160 | |
| Release of provisions | | | | 40 |
| Accruals made in respect of Discontinued operations | | (41) | (1) | (5) |
| Income tax expense | | | | 1 |
| | **(B)** | **(41)** | **159** | **36** |
| **Profit (loss) from Discontinued operation/Non-current assets held for sale** | **(A+B)** | **(622)** | **(39)** | **(99)** |

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The impact on the income statement refers to the following companies sold:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Economic impact from Discontinued operations/Non current assets held for sale:** | | | |
| Hansenet | (620) | (10) | 87 |
| Tim Hellas | | (1) | 39 |
| Liberty Surf Group | | (28) | (222) |
| Digitel Venezuela | | | (1) |
| Buffetti Group | (2) | | (2) |
| **Operating profit** | **(622)** | **(39)** | **(99)** |

***

In the cash flow statement, the net impact of Discontinued operations/non-current assets held for sale can be detailed as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Cash flows from operating activities** | | | |
| Hansenet | 211 | 145 | 377 |
| Liberty Surf Group | | (139) | (82) |
| **Total** | **211** | **(6)** | **295** |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Cash flows from investing activities** | | | |
| Hansenet | (144) | (204) | (354) |
| Liberty Surf Group | | (175) | 153 |
| **Total** | **(144)** | **(379)** | **(201)** |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Cash flows from financing activities** | | | |
| Hansenet | (6) | 28 | |

| | | | |
|---|---|---|---|
| Liberty Surf Group | | 304 | 1 |
| **Total** | **(6)** | **332** | **1** |

| | Year ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **(millions of euros)** | | |
| **Discontinued operations/Non-current assets held for sale** | | | |
| Cash flows from operating activities | 211 | 6 | 295 |
| Cash flows from investing activities | (144) | (379) | (201) |
| Cash flows from financing activities | (6) | 332 | 1 |
| **Total** | **61** | **(41)** | **95** |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**NOTE 18 EQUITY**

**Equity** includes:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Equity attributable to owners of the Parent | 25,952 | 25,598 |
| Equity attributable to Non-controlling interests | 1,168 | 730 |
| **Total** | **27,120** | **26,328** |

**Equity attributable to owners of the Parent** is detailed as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Share capital | 10,585 | 10,591 |
| Paid-in capital | 1,689 | 1,689 |
| Sundry reserves and retained earnings (accumulated losses), including profit for the year(*) | 13,678 | 13,318 |
| **Total** | **25,952** | **25,598** |
| (*) of which: | | |
| *Reserve for available-for-sale financial assets* | *(4)* | *(22)* |
| *Reserve for cash flow hedges* | *(494)* | *441* |
| *Reserve for exchange differences on translating foreign operations* | *983* | *255* |
| *Other gains (losses) of associates and joint ventures accounted for using the equity method* | *(110)* | *(39)* |
| *Other reserves and retained earnings (accumulated losses), including profit for the year* | *13,303* | *12,683* |

The movements in **share capital** during 2009, 2008 and 2007 are presented in the following tables:

**Reconciliation between the number of outstanding shares at December 31, 2006 and December 31, 2007**

| | Shares issued as a result of | Shares as of December 31, | Percentage of Share Capital |
|---|---|---|---|

| | Shares as of December 31, 2006 | bond conversion | 2007 | |
|---|---|---|---|---|
| | | (number of shares of par value of 0.55 each) | | |
| Ordinary Shares issued (a) | 13,380,723,078 | 53,235 | 13,380,776,313 | 68.95% |
| Less: Treasury Shares (b) | (125,816,387) | | (125,816,387) | |
| Outstanding Ordinary Shares (c) | 13,254,906,691 | 53,235 | 13,254,959,926 | |
| Issued and Outstanding Savings Shares (d) | 6,026,120,661 | | 6,026,120,661 | 31.05% |
| **Total shares issued by Telecom Italia S.p.A. (a+d)** | **19,406,843,739** | **53,235** | **19,406,896,974** | **100.00%** |
| **Total shares of Telecom Italia S.p.A. outstanding (c+d)** | **19,281,027,352** | **53,235** | **19,281,080,587** | |

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**Reconciliation between the number of outstanding shares at December 31, 2007 and December 31, 2008**

| | Shares as of December 31, 2007 | Shares issued following bond conversion/ Purchase of treasury shares (number of shares of par value of 0.55 each) | Shares as of December 31, 2008 | Percentage of Share Capital |
|---|---|---|---|---|
| Ordinary Shares issued (a) | 13,380,776,313 | 19,160 | 13,380,795,473 | 68.95% |
| Less: Treasury Shares (b) | (125,816,387) | (25,000,000) | (150,816,387) | |
| Outstanding Ordinary Shares (c) | 13,254,959,926 | (24,980,840) | 13,229,979,086 | |
| Issued and Outstanding Savings Shares (d) | 6,026,120,661 | | 6,026,120,661 | 31.05% |
| **Total shares issued by Telecom Italia S.p.A. (a+d)** | **19,406,896,974** | **19,160** | **19,406,916,134** | **100.00%** |
| **Total shares of Telecom Italia S.p.A. outstanding (c+d)** | **19,281,080,587** | **(24,980,840)** | **19,256,099,747** | |

**Reconciliation between the number of outstanding shares at December 31, 2008 and December 31, 2009**

| | Shares as of December 31, 2008 | Shares issued following bond conversion/ Purchase of treasury shares (number of shares of par value of 0.55 each) | Shares as of December 31, 2009 | Percentage of Share Capital |
|---|---|---|---|---|
| Ordinary Shares issued (a) | 13,380,795,473 | 111,466 | 13,380,906,939 | 68.95% |
| Less: Treasury Shares (b) | (150,816,387) | (11,400,000) | (162,216,387) | |
| Outstanding Ordinary Shares (c) | 13,229,979,086 | (11,288,534) | 13,218,690,552 | |
| Issued and Outstanding Savings Shares (d) | 6,026,120,661 | | 6,026,120,661 | 31.05% |
| **Total shares issued by Telecom Italia S.p.A. (a+d)** | **19,406,916,134** | **111,466** | **19,407,027,600** | **100.00%** |
| **Total shares of Telecom Italia S.p.A. outstanding (c+d)** | **19,256,099,747** | **(11,288,534)** | **19,244,811,213** | |

**Reconciliation between the value of the outstanding shares as of December 31, 2006 and December 31, 2007**

| | Share capital as of December 31, 2006 | Changes in share capital as a result of bond conversion | Share capital as of December 31, 2007 |
|---|---|---|---|

| | | (millions of euros) | |
|---|---|---|---|
| Ordinary Shares issued (a) | 7,360 | | 7,360 |
| Less: Treasury Shares (b) | (69) | | (69) |
| Outstanding Ordinary Shares (c) | 7,291 | | 7,291 |
| Issued and Outstanding Savings Shares (d) | 3,314 | | 3,314 |
| **Total share capital issued by Telecom Italia S.p.A. (a+d)** | **10,674** | | **10,674** |
| **Telecom Italia S.p.A. total outstanding share capital (c+d)** | **10,605** | | **10,605** |

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**Reconciliation between the value of the outstanding shares as of December 31, 2007 and December 31, 2008**

| | Share capital as of December 31, 2007 | Change in share capital as a result of treasury share buybacks (millions of euros) | Share capital as of December 31, 2008 |
|---|---|---|---|
| Ordinary Shares issued (a) | 7,360 | | 7,360 |
| Less: Treasury Shares (b) | (69) | (14) | (83) |
| Outstanding Ordinary Shares (c) | 7,291 | (14) | 7,277 |
| Issued and Outstanding Savings Shares (d) | 3,314 | | 3,314 |
| **Total share capital issued by Telecom Italia S.p.A. (a+d)** | **10,674** | | **10,674** |
| **Telecom Italia S.p.A. total outstanding share capital (c+d)** | **10,605** | **(14)** | **10,591** |

**Reconciliation between the value of the outstanding shares as of December 31, 2008 and December 31, 2009**

| | Share capital as of December 31, 2008 | Change in share capital as a result of treasury share buybacks (millions of euros) | Share capital as of December 31, 2009 |
|---|---|---|---|
| Ordinary Shares issued (a) | 7,360 | | 7,360 |
| Less: Treasury Shares (b) | (83) | (6) | (89) |
| Outstanding Ordinary Shares (c) | 7,277 | (6) | 7,271 |
| Issued and Outstanding Savings Shares (d) | 3,314 | | 3,314 |
| **Total share capital issued by Telecom Italia S.p.A. (a+d)** | **10,674** | | **10,674** |
| **Telecom Italia S.p.A. total outstanding share capital (c+d)** | **10,591** | **(6)** | **10,585** |

In March 2009, Telecom Italia purchased 11,400,000 ordinary shares to service the stock option plan reserved for Executive Officers of Telecom Italia, Stock Option Plan Top 2008 , approved by the shareholders meeting held on April 14, 2008.

The total amount of ordinary treasury shares at December 31, 2009 for 508 million euros was recorded for the part relating to the par value (89 million euros) as a deduction from share capital issued and, for the remaining amount, as a deduction from Other reserves.

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**SHARE CAPITAL INFORMATION**

The ordinary and savings shares of the Company are also listed on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (**ADRs**) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the

shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an efficient access to external sources of financing (taking advantage of the best opportunities offered in the euro, U.S. dollar and Pound sterling financial markets to minimize costs) and an efficient process of renegotiating maturities aimed at reducing the refinancing risk.

Dividend is proposed by the board of directors to the shareholders meeting which meets to approve the annual financial statements based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

**RIGHTS OF SAVINGS SHARES**

The rights of savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;
- after assigning preferred dividends to the savings shares, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;
- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;
- in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, the shareholders meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;
- the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;
- upon the wind-up of Telecom Italia S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital for the entire par value; and

- in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders meeting called for that purpose within two months of being excluded from trading.

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- **Other reserves and retained earnings (accumulated losses), including profit for the year** comprise:

the **Reserve for available-for-sale financial assets** shows a negative balance of 4 million euros at December 31, 2009, increasing 18 million euros compared to December 31, 2008. It includes unrealized losses relating to the investment in Assicurazioni Generali (-1 million euros) and unrealized gains relating to the investment in Fin.Priv. (3 million euros) by the Parent, Telecom Italia, as well as unrealized losses on the securities portfolio of Telecom Italia Finance (-12 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (6 million euros). This reserve is net of deferred tax liabilities of 2 million euros (at December 31, 2008, it was net of deferred tax liabilities of 6 million euros);

the **Reserve for cash flow hedges** shows a negative balance of 494 million euros at December 31, 2009, decreasing 935 million euros compared to December 31, 2008. This reserve is net

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of deferred tax assets of 183 million euros (at December 31, 2008, it was net of deferred tax liabilities of 180 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements;

the **Reserve for exchange differences on translating foreign operations** shows a positive balance of 983 million euros at December 31, 2009, increasing 728 million euros compared to December 31, 2008. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit;

**other gains (losses) of associates and joint ventures accounted for using the equity method** show a negative balance of 110 million euros at December 31, 2009, increasing 71 million euros compared to December 31, 2008. They mainly refer to the reserve for exchange differences on translating to euros the Telecom Italia Group s share of the equity of the investments in ETECSA Cuba and Sofora Telecomunicaciones; and

**other reserves and retained earnings (accumulated losses), including profit for the year** amount to 13,303 million euros, increasing 620 million euros compared to December 31, 2008. The change is mainly due to the sum of the following:

dividends approved for 1,029 million euros (1,609 million euros in 2008);

the profit for the year attributable to owners of the Parent, equal to 1,581 million euros (2,177 million euros in 2008); and

the capital gain of 47 million euros (described in detail in the Note *Business combinations* ), due to the partial sale (without loss of control) of the investment in Tim Participações in order to acquire control of Intelig Telecomunicações Ltda.

**Equity attributable to Non-controlling interests** amounts to 1,168 million euros, increasing 438 million euros compared to December 31, 2008, and is represented by the sum of:

- dividends approved (24 million euros);
- the profit for the year attributable to Non-controlling interests of 15 million euros (1 million euros in 2008);
- the positive change in the Reserve for exchange differences on translating foreign operations (237 million euros); and
- the positive effect, for a total of 248 million euros, relating to Intelig Telecomunicações Ltda (99 million euros) and the change in the percentage ownership of Tim Participações (149 million euros, of which 39 million euros relates to the corresponding share of the Reserve for exchange differences on translating foreign operations ).

The line item consists principally of the equity attributable to the Non-controlling interests of the companies of the Brazil Business Unit and the Media Business Unit.

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**FUTURE POTENTIAL CHANGES IN SHARE CAPITAL**

The following table shows the future potential changes in share capital on the basis of the options of the stock option plans still outstanding at December 31, 2009:

| | Number of maximum shares issuable | Par value (thousands of euros) | Paid-in capital (thousands of euros) | Subscription price per share (euros) |
|---|---|---|---|---|
| **Additional capital increases approved (Ordinary Shares)** | | | | |
| Stock Option Plan 2002 Top | 5,941,567 | 3,268 | 13,298 | 2.788052 |
| Stock Option Plan 2002 | 17,153,847 | 9,434 | 40,675 | |
| *Of which:* | | | | |
| *Grants in March 2002* | *16,929,390* | *9,311* | *40,258* | *2.928015* |
| *Grants in August 2002* | *224,457* | *123* | *417* | *2.409061* |
| Stock Option Plans 2003 2005 ex TIM | 1,212,557 | 667 | 2,887 | 2.788052 |
| **Total additional capital increases approved (Ordinary Shares)** | **24,307,971** | **13,369** | **56,860** | **2.930636** |
| **Additional capital increases not yet approved (Ordinary Shares)** | **1,600,000,000** | **880,000** | | |

At December 31, 2009, there were still 484,600,157 bonds outstanding of Telecom Italia 1.5% 2001-2010 convertible with repayment premium that were no longer convertible from the date of December 16, 2009. Specifically, the shares on the last bond conversion requests received by December 15, 2009 were made available to those entitled on December 30, 2009. The remaining 484,600,157 bonds outstanding at December 31, 2009, although no longer convertible, were repaid on January 1, 2010, with a one-time payment made on January 4, 2010.

Further details on stock option plans are provided in the Note *Stock option and performance share granting plans of the Telecom Italia Group* .

With regard to the additional capital increases not yet approved, the shareholders meeting held on April 8, 2009 granted the directors the right (which, to date, has not been exercised), for a maximum period of five years beginning April 8, 2009, to increase against payment, at one or more times, share capital for a maximum nominal amount of 880,000,000 euros, through the issue, with or without paid-in capital, of a maximum of 1,600,000,000 ordinary shares of par value 0.55 euros each:

(i) to be offered as option rights to those entitled in whole or in part; and

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive right, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the board of directors in exercising the aforementioned right shall fix the subscription price (including any paid-in-capital) and establish a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the board is not fully subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

**Authorizations for the issue of convertible bonds and the purchase of treasury shares**

The board of directors of Telecom Italia S.p.A. has the right to issue, at one or more times and for five years, starting April 8, 2009, bonds convertible into ordinary shares, to be offered as option rights to those entitled, for a maximum nominal amount of 1,000,000,000 euros.

At December 31, 2008, Telecom Italia S.p.A. held 26,272,014 treasury shares, of which 25,000,000 were purchased to service the plan for granting free Telecom Italia S.p.A. ordinary shares to individuals who hold key

roles as employees or collaborators of Telecom Italia S.p.A. or subsidiaries ( *Performance Share Granting Plan* ), as part of the first tranche of the treasury share buyback program announced on August 8, 2008.

Between March 17 and March 31, 2009, Telecom Italia S.p.A. purchased 11,400,000 ordinary shares to service the stock option plan reserved for executive officers of Telecom Italia S.p.A., Stock Option Plan Top 2008 , as part of the second tranche of the treasury share buyback program announced on August 8, 2008.

The Telecom Italia S.p.A. shareholders meeting held on April 14, 2008, in fact, had passed a resolution to authorize, for the maximum period allowed by the applicable law starting from the date of the shareholders resolution, the purchase of Telecom Italia S.p.A. ordinary shares, at one or more times and at any date, for a maximum of 11,400,000 ordinary shares and thus up to 0.059% of share capital.

This authorization for the purchase of treasury shares, in effect until October 14, 2009, was in relation to the implementation, approved by the board of directors in its meeting held on April 15, 2008, of the stock option plan reserved for the executive officers of Telecom Italia S.p.A. approved by the same ordinary shareholders meeting held on April 14, 2008.

As decided by the board of directors in its meeting held on August 8, 2008, the unit price for the purchases was between a minimum and a maximum corresponding to the weighted average trading prices of ordinary shares registered by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of purchase, respectively decreased or increased by 10%. The purchase of the treasury shares in any case took place within the limits of the unrestricted reserves, as shown in the most recent financial statements approved at the time the purchase was carried out. The purchases were made on regulated markets, according to the manner allowed by the regulations and laws in force.

As a result of these purchases, the authorization for the buyback of treasury shares approved by the shareholders meeting held on April 14, 2008 was completely used and the treasury share buyback Program announced on August 8, 2008 ended.

As of the date of December 31, 2009, the Telecom Italia Group holds 162,216,387 treasury shares, of which 37,672,014 are held through the Parent, Telecom Italia, and 124,544,373 through Telecom Italia Finance.

With regard to these latter shares, dividends equal to 5 million euros, relating to 99,936,853 ordinary shares deposited at Lehman Brothers International (Europe) in administration ( **LBIE** ), are yet to be collected and are recorded as a receivable from LBIE.

When the Lehman Brothers bankruptcy was announced, the Telecom Italia S.p.A. shares had been deposited at LBIE under a custody contract. Owing to the complexity of the liquidation procedures these shares are still held under custody and the relative dividends have been collected by LBIE.

Actions to obtain the restitution of the shares and the receipt of the relative dividends are in progress but the time involved cannot currently be quantified.

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On the basis of the motion put forward by the board of directors meeting held on April 12, 2010, the profit for the year 2009 shown in the financial statements of the Parent, Telecom Italia S.p.A. shall be appropriated as dividends in an amount of 1,035 million euros for distribution to the shareholders as follows:

- 0.050 euros for each ordinary share,

- 0.061 euros for each savings share,

gross of withholdings as established by law; undistributed profit will be appropriated to retained earnings.

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**NOTE 19 FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT)**

Financial liabilities are composed as follows:

| | | As of December 31, 2009 | 2008 |
|---|---|---|---|
| | | (millions of euros) | |
| **Financial payables (medium/long-term):** | | | |
| · Bonds | | 26,369 | 25,139 |
| · Convertible bonds | | | 541 |
| | | **26,369** | **25,680** |
| · Amounts due to banks | | 5,308 | 5,803 |
| · Other financial payables | | 431 | 453 |
| | | **32,108** | **31,936** |
| Finance lease liabilities (medium/long-term) | | 1,565 | 1,713 |
| **Other financial liabilities (medium/long-term):** | | | |
| · Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature | | 3,075 | 2,877 |
| · Deferred income | | 4 | 1 |
| | | **3,079** | **2,878** |
| **Total non current financial liabilities** | **(A)** | **36,752** | **36,527** |
| **Financial payables (short-term):** | | | |
| · Bonds | | 3,086 | 4,490 |
| · Convertible bonds | | 581 | 7 |
| | | **3,667** | **4,497** |
| · Amounts due to banks | | 2,246 | 883 |
| · Other financial payables | | 311 | 346 |
| | | **6,224** | **5,726** |
| Finance lease liabilities | | 250 | 274 |
| **Other financial liabilities (short-term):** | | | |
| · Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature | | 442 | 236 |
| · Non-hedging derivatives | | 69 | 25 |
| · Deferred income | | 1 | 6 |
| | | **512** | **267** |
| **Total current financial liabilities** | **(B)** | **6,986** | **6,267** |
| **Financial liabilities relating to Discontinued operations/Non current assets held for sale** | **(C)** | **659** | |
| **Total financial liabilities** | **(D)=(A+B+C)** | **44,397** | **42,794** |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

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**Bonds** are composed as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Non-current portion | 26,369 | 25,139 |
| Current portion | 3,086 | 4,490 |
| **Total carrying amounts** | **29,455** | **29,629** |
| Fair value adjustment and measurement at amortized cost | (923) | (1,383) |
| **Total nominal repayment amount** | **28,532** | **28,246** |

The nominal repayment amount totals 28,532 million euros, increasing 286 million euros compared to December 31, 2008 (28,246 million euros) mainly as a result of the balance between repayments and new issues during 2009 by Telecom Italia S.p.A., Telecom Italia Finance S.A. and Telecom Italia Capital S.A. and the difference in the USD/euro exchange rate.

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The following table lists bonds expressed at the nominal repayment amount, net of bond repurchases, and at market value issued by companies of the Telecom Italia Group, by issuing company:

| Currency | Amount in original currency (million) | Nominal repayment amount in Euro (million) | Coupon | Issue date | Maturity date | Issue price (%) | Market price as of December 31, 2009 (%) | Market value as of December 31, 2009 (millions of Euro) |
|---|---|---|---|---|---|---|---|---|
| **Bonds issued by Telecom Italia S.p.A.** | | | | | | | | |
| Euro | 796 | 796 | 3 month Euribor +0.20% | 06/07/2007 | 06/07/2010 | 99.915 | 100.025 | 796 |
| Euro | 750 | 750 | 4.500% | 01/29/2004 | 01/28/2011 | 99.560 | 103.453 | 776 |
| Euro | 1,250 | 1,250 | 6.250% | 02/01/2002 | 02/01/2012 | 98.952 | 108.947 | 1,362 |
| Euro | 1,000 | 1,000 | 3 month Euribor + 0.53% | 12/06/2005 | 12/06/2012 | 100 | 101.058 | 1,011 |
| Euro | 650 | 650 | 6.750% | 03/19/2009 | 03/21/2013 | 99.574 | 114.841 | 746 |
| Euro | 500 | 500 | 3 month Euribor + 0.63% | 07/19/2007 | 07/19/2013 | 100 | 101.662 | 508 |
| Euro | 500 | 500 | 7.875% | 01/22/2009 | 01/22/2014 | 99.728 | 120.257 | 601 |
| Euro | 673 | 673 | 4.750% | 05/19/2006 | 05/19/2014 | 99.156 | 108.641 | 731 |
| Euro | 120 | 120 | 3 month Euribor + 0.66% | 11/23/2004 | 11/23/2015 | 100 | 102.949 | 124 |
| GBP | 500 | 563 | 5.625% | 06/29/2005 | 12/29/2015 | 99.878 | 110.615 | 623 |
| Euro | 850 | 850 | 8.250% | 03/19/2009 | 03/21/2016 | 99.740 | 131.666 | 1,119 |
| Euro | 400 | 400 | 3 month Euribor + 0.79% | 06/07/2007 | 06/07/2016 | 100 | 103.986 | 416 |
| GBP | 750 | 845 | 7.375% | 05/26/2009 | 12/15/2017 | 99.608 | 124.408 | 1,051 |
| Euro | 1,250 | 1,250 | 5.375% | 01/29/2004 | 01/29/2019 | 99.070 | 114.976 | 1,437 |
| GBP | 850 | 957 | 6.375% | 06/24/2004 | 06/24/2019 | 98.850 | 118.009 | 1,129 |
| Euro | 348 | 348 | 6 month Euribor + (base 365) | 01/01/2002 | 01/01/2022 | 100 | 100 | 348 |
| GBP | 400 | 450 | 5.875% | 05/19/2006 | 05/19/2023 | 99.622 | 115.510 | 520 |
| Euro | 670 | 670 | 5.250% | 03/17/2005 | 03/17/2055 | 99.667 | 127.869 | 857 |
| **Sub-Total** | | **12,572** | | | | | | **14,155** |
| **Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.** | | | | | | | | |
| Euro | 119 | 119 | 3 month Euribor +1.30% | 06/12/2008 | 06/14/2010 | 100 | 100.502 | 120 |
| Euro | 1,997 | 1,997 | 7.500%(a) | 04/20/2001 | 04/20/2011 | 99.214 | 107.844 | 2,154 |
| Euro | 1,000 | 1,000 | 7.250% | 04/24/2002 | 04/24/2012 | 101.651(*) | 111.812 | 1,118 |
| Euro | 850 | 850 | 6.875% | 01/24/2003 | 01/24/2013 | 99.332 | 113.523 | 965 |
| JPY | 20,000 | 150 | 3.550% | 04/22/2002 | 05/14/2032 | 99.250 | 125.585 | 189 |
| Euro | 1,015 | 1,015 | 7.750% | 01/24/2003 | 01/24/2033 | 109.646(*) | 156.772 | 1,591 |
| **Sub-Total** | | **5,131** | | | | | | **6,137** |
| **Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.** | | | | | | | | |
| USD | 1,250 | 868 | 4.000% | 10/06/2004 | 01/15/2010 | 99.732 | 100.093 | 869 |
| USD | 700 | 486 | 4.875% | 09/28/2005 | 10/01/2010 | 99.898 | 103.202 | 501 |
| USD | 400 | 278 | 3 month U.S.$ Libor +0.48% | 09/28/2005 | 02/01/2011 | 100 | 100.518 | 279 |
| USD | 850 | 590 | 3 month U.S.$ Libor +0.61% | 07/18/2006 | 07/18/2011 | 100 | 100.940 | 596 |
| USD | 750 | 521 | 6.200% | 07/18/2006 | 07/18/2011 | 99.826 | 107.775 | 561 |
| USD | 2,000 | 1,388 | 5.250% | 10/29/2003 | 11/15/2013 | 99.742 | 110.205 | 1,530 |
| USD | 1,000 | 694 | 6.175% | 06/18/2009 | 06/18/2014 | 100 | 114.462 | 795 |
| USD | 1,250 | 868 | 4.950% | 10/06/2004 | 09/30/2014 | 99.651 | 109.307 | 948 |
| USD | 1,400 | 972 | 5.250% | 09/28/2005 | 10/01/2015 | 99.370 | 100.843 | 1,077 |
| USD | 1,000 | 694 | 6.999% | 06/04/2008 | 06/04/2018 | 100 | 123.866 | 860 |
| USD | 1,000 | 694 | 7.175% | 06/18/2009 | 06/18/2019 | 100 | 126.492 | 878 |
| USD | 1,000 | 694 | 6.375% | 10/29/2003 | 11/15/2033 | 99.558 | 128.093 | 889 |
| USD | 1,000 | 694 | 6.000% | 10/06/2004 | 09/30/2034 | 99.081 | 122.833 | 853 |
| USD | 1,000 | 694 | 7.200% | 07/18/2006 | 07/18/2036 | 99.440 | 142.395 | 988 |
| USD | 1,000 | 694 | 7.721% | 06/04/2008 | 06/04/2038 | 100 | 152.133 | 1,056 |

| | | | |
|---|---|---|---|
| **Sub-Total** | **10,829** | | **12,680** |
| **Total** | **28,532** | | **32,972** |

Note (a): see the following paragraph Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating .

(*) Weighted average issue price for bonds issued with more than one tranche.

The regulations and/or Offering Circulars relating to the notes/bonds described above are available on the corporate website http://www.telecomitalia.it.

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The following table lists the bonds partly repurchased during the year by the Telecom Italia Group:

| Buybacks | Currency | Amount in original currency (million) | Buyback period |
|---|---|---|---|
| Telecom Italia Finance S.A., 1,849 (*) million euros 6.575% maturing July 2009 | Euro | 253.77 | January June |
| Telecom Italia Finance S.A., 119 million euros Floating Rates maturing June 2010 | Euro | 20.00 | March May |
| Telecom Italia S.p.A., 796 million euros Floating Rates maturing June 2010 | Euro | 53.75 | April May |
| Telecom Italia Finance S.A., 1,997 million euros 7.50% maturing April 2011 | Euro | 2.68 | October |

(*) Net of 107 million euros and 254 million euros of bonds repurchased by the company, respectively, during 2008 and 2009.

The following table lists the bonds repaid during the year by the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount:

| Currency | Amount in original currency (million) | Nominal repayment amount (millions of euros) | Coupon | Issue date | Maturity date | Issue price (%) |
|---|---|---|---|---|---|---|
| **Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.** | | | | | | |
| Euro | (*)1,450 | 1,450 | 5.150% | 02/09/1999 | 02/09/2009 | 99.633 |
| Euro | (**)1,849 | 1,849 | 6.575% | 07/30/1999 | 07/30/2009 | 98.649 |
| **Bonds issued by Telecom Italia S.p.A.** | | | | | | |
| USD | 110 | 110 | 3 month Euribor + 0.60% | 04/08/2004 | 03/30/2009 | 100 |

(*) Net of 50 million euros of bonds repurchased by the company during 2008.

(**) Net of 107 million euros and 254 million euros of bonds repurchased by the company, respectively, during 2008 and 2009.

**Mechanism describing how coupons change on step-up/step-down notes/bonds in relation to a change in the rating**

**(a) TI Finance S.A. bonds Euro Notes : 1,997 million euros, 7.50% interest, maturing April 2011**

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody s and Standard & Poor s, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest (or the spread above the Euribor in the case of floating-rate securities) by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.

Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, in 2008, the coupon was further increased by 0.25% (a first step-up occurred after Moody s rated the bonds Baa2 in August 2003, raising the coupon from 7% to 7.25%) due to a change in Standard&Poor s credit rating in March 2008. The step-up was applied starting with the April 2008 coupon; the new rate is now 7.50%.

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**Changes in Telecom Italia s ratings**

Telecom Italia s ratings at December 31, 2009 by the major Rating Agencies are the following:

| S&P s Most recent revision July 29, 2009 | | Moody s Most recent revision June 17, 2009 | | Fitch Ratings Most recent revision June 12, 2009 | |
|---|---|---|---|---|---|
| Rating | Outlook | Rating | Outlook | Rating | Outlook |
| BBB | Stable | Baa2 | Stable | BBB | Stable |

**Convertible bonds** can be analyzed as follows:

| | As of December 31, 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| Non-current portion | | 541 |
| Current portion | 581 | 7 |
| **Total carrying amounts** | **581** | **548** |
| Measurement at amortized cost | (7) | 26 |
| **Total nominal repayment amount** | **574** | **574** |

As established in the Regulations, bond conversion requests have been regularly presented during the bond period, starting from January 22, 2002 up to December 15, 2009, and the related shares have been issued at the established dates. Specifically, the shares relating to the last bond conversion requests received between December 1 and December 15, 2009 were made available to those entitled on December 30, 2009. The remaining 484,600,157 bonds outstanding at December 31, 2009, although no longer convertible, were repaid on January 1, 2010, with a one-time payment made on January 4, 2010.

The following table lists the Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium , expressed at the nominal repayment amount and at market value:

| Currency | Nominal repayment amount in euros (million) | Coupon | Underlying shares | Issue date | Maturity date | Issue price (%) | Market price as of December 31, 2009 (%) | Market value as of December 31, 2009 (millions of euros) |
|---|---|---|---|---|---|---|---|---|
| **Convertible bonds issued by Telecom Italia S.p.A.** | | | | | | | | |
| Euro | 574 | 1.500% | TI S.p.A. | 11/23/2001 | 01/01/2010 | 100 | 118.299 | 573 |

**Financial covenants / other covenants / other features of convertible bonds**

The bonds listed do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A. None of the securities summarized here carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company s assets as collateral for loans ( negative pledges ).

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Gross financial debt according to the original currency of the transaction is as follows:

| | As of December 31, 2009 | | As of December 31, 2008 | |
|---|---|---|---|---|
| | (millions of foreign currency) | (millions of euros) | (millions of foreign currency) | (millions of euros) |
| USD | 16,296 | 11,312 | 13,898 | 9,986 |
| GBP | 2,527 | 2,845 | 1,780 | 1,869 |
| BRL | 3,177 | 1,267 | 2,408 | 740 |
| JPY | 30,548 | 229 | 54,918 | 435 |
| EURO | | 28,085 | | 29,764 |
| | | **43,738** | | **42,794** |
| Discontinued Operations | | 659 | | |
| | | **44,397** | | **42,794** |

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Up to 2.5% | 5,424 | 441 |
| From 2.5% to 5% | 6,018 | 10,376 |
| From 5% to 7.5% | 21,953 | 21,379 |
| From 7.5% to 10% | 4,564 | 4,923 |
| Over 10% | 1,073 | 985 |
| Accruals/deferrals, MTM and derivatives | 4,706 | 4,690 |
| | **43,738** | **42,794** |
| Discontinued Operations | 659 | |
| | **44,397** | **42,794** |

Instead, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Up to 2.5% | 5,839 | 441 |
| From 2.5% to 5% | 14,763 | 12,339 |
| From 5% to 7.5% | 13,910 | 20,918 |
| From 7.5% to 10% | 3,802 | 3,491 |

| | | |
|---|---|---|
| Over 10% | 718 | 915 |
| Accruals/deferrals, MTM and derivatives | 4,706 | 4,690 |
| | **43,738** | **42,794** |
| Discontinued Operations | 659 | |
| | **44,397** | **42,794** |

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The maturities of non-current financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

**Maturities of Financial liabilities nominal repayment amount:**

| | Maturing by December 31, of the year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | Beyond 2014 | Total |
| | (millions of euros) | | | | | | |
| Bonds | 2,842 | 4,136 | 3,250 | 3,388 | 2,735 | 12,755 | 29,106 |
| Loans and other financial liabilities | 2,303 | 618 | 284 | 918 | 2,770 | 3,092 | 9,985 |
| Finance lease liabilities | 233 | 181 | 165 | 138 | 122 | 960 | 1,799 |
| **Total** | **5,378** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **40,890** |
| Current financial liabilities | 477 | | | | | | 477 |
| **Total excluding Discontinued Operations** | **5,855** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **41,367** |
| Discontinued Operations(1) | 628 | | | | | | 628 |
| **Total** | **6,483** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **41,995** |

(1) These represent the financial liabilities of HanseNet Telekommunikation GmbH with companies of the Telecom Italia Group (607 million euros) and third parties (21 million euros).

Medium/long-term **amounts due to banks** total 5,308 million euros (5,803 million euros at December 31, 2008), decreasing 495 million euros.

Short-term amounts due to banks of 2,246 million euros increased by 1,363 million euros (883 million euros at December 31, 2008) and include 2,098 million euros for the current portion of medium/long-term amounts due to banks, of which 1.5 billion euros refers to the Term Loan, duly reimbursed in January 2010.

Medium/long-term **other financial payables** amount to 431 million euros (453 million euros at December 31, 2008). They include 156 million euros of the Telecom Italia Finance S.A. loan for 20,000 million Japanese yen due in 2029 and 254 million euros of debt certificates regulated by German law denominated Schuldschein issued by Telecom Italia Finance S.A. maturing 2013. Short-term other financial payables amount to 311 million euros (346 million euros at December 31, 2008).

Medium/long-term **finance lease liabilities** total 1,565 million euros (1,713 million euros at December 31, 2008) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 250 million euros (274 million euros at December 31, 2008).

**Hedging derivatives** relating to hedged items classified as non-current liabilities of a financial nature amount to 3,075 million euros (2,877 million euros at December 31, 2008).

Hedging derivatives relating to hedged items classified as current liabilities of a financial nature total 442 million euros (236 million euros at December 31, 2008). Further details are provided in the Note *Derivatives* .

Short-term **non-hedging derivatives** total 69 million euros (25 million euros at December 31, 2008) and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS. Further details are provided in the Note *Derivatives* .

**Revolving Credit Facility**

Currently, the Telecom Italia Group has a syndicated Revolving Credit Facility (RCF) expiring August 2014 for 8 billion euros, of which 1.5 billion euros is drawn down.

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**Covenants and negative pledges relating to outstanding positions at December 31, 2009**

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 852 million euros (out of a total of 2,541 million euros at December 31, 2009) is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments, it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract. As for the two loan contracts signed between EIB and Telecom Italia S.p.A. on July 17, 2006 for 150,000,000.00 euros and on November 30, 2007 for 182,200,000.00 euros, EIB has the right to rescind from the contract under ex. art. 1456 of the Italian Civil Code should Telecom Italia S.p.A. cease to hold, directly or indirect, more than 50% (fifty percent) of the voting rights in the ordinary shareholders meeting of HanseNet Telekommunication GmbH Germany or, in any case, a number of shares such as to represent more than 50% (fifty percent) of its share capital; to this end, on November 5, 2009, the Group announced that an agreement had been signed in principle for the sale of the subsidiary, HanseNet, to the Telefónica group which was finalized on February 16, 2010. Following HanseNet s sale, the Group is carrying out the required fulfilments for the resolution of the above mentioned contracts;

- for the loan with a nominal amount of 350 million euros, if the Company s rating is lower than BBB+ for Standard&Poor s, Baa1 for Moody s and BBB+ for Fitch Ratings and, for the loans with a nominal amount of 500 million euros, if the Company s rating is lower than BBB for S&P s, Baa2 for Moody s and BBB for Fitch Ratings, the company shall immediately inform EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia S.p.A. fails to provide the guarantees, EIB shall have the right to demand immediate repayment of the amount disbursed;

- the company is obliged to promptly advise the bank about changes in the allocation of share capital among the shareholders which could bring about a change in control. Failure to communicate this information would result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders meeting or, in any case, a number of shares such that it represents more than 50% of the share capital, whenever, in the bank s reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the Project. This clause also applies to the guaranteed loan of 300 million euros made by the EIB in June 2009.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia s credit rating, with a spread added to the Euribor of between a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010 and a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014.

The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company s assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). The same negative pledge conditions are also found in the export credit loan agreements.

The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of 88 million euros at December 31, 2009) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders, including the shareholders of Telco, acquires control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties shall negotiate the terms with which to continue the relationship.

Lastly, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt, profit ratios and debt ratios) as well as the usual other pledge clauses, under pain of a request for the early repayment of the loan.

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With the understanding that there are no financial covenants on the loan contracts of the Group, it should be pointed out, that at December 31, 2009, no covenant of any other type, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

**NOTE 20 FINANCIAL RISK MANAGEMENT**

***Financial risk management objectives and policies of the Telecom Italia Group***

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- *market risk*: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- *credit risk*: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- *liquidity risk*: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the establishment, at a central level, of guidelines for directing operations;
- the activities of an internal committee which monitor the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results obtained;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Telecom Italia Group are described below.

***Identification of risks and analyses***

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum fixed-rate and floating-rate debt composition and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group s operations, the optimum blend of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in the range 60 70% for the fixed-rate component and 40% 30% for the floating-rate component.

In managing market risk, the Group adopted a guideline policy for debt management using derivative instruments and mainly uses the following:

- Interest Rate Swaps (IRS): used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or floating;

- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than the euro principally in U.S. dollars and British pounds to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than the euro and the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high credit rating.

Effective May 1, 2009, in order to reduce the Group s credit exposure arising from the fair value (mark-to-market) measurement of derivatives and to allow settlement under a single ISDA Master Agreement, the contracts put into place with 29 banking counterparts have been assigned by Telecom Italia Finance S.A. and Telecom Italia Capital S.A. to Telecom Italia S.p.A., which is already the counterpart on the remaining portfolio that was not assigned. The procedure did not involve any change in the contract terms or in the original hedge accounting relationships set up at the Group level.

The exposure to the various market risks can be measured by sensitivity analyses, in accordance with IFRS 7. These analyses illustrate the effects produced by a given and assumed change in the levels of the relevant variables in the various markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- The sensitivity analyses were performed by applying reasonably possible variations in the relevant risk variables to the amounts in the financial statements at December 31, 2009 and at December 31, 2008, assuming that such amounts are representative of the entire year.

- The exchange risk of the Group s loans denominated in currencies other than the euro is fully hedged, therefore, the exchange risk is not considered in the sensitivity analysis under IFRS 7.

- The changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in interest rates, generate an impact on profit only when they are accounted for at their fair value, in accordance with IAS 39. All fixed-rate instruments which are accounted for at amortized cost are not subject to interest rate risk as defined by IFRS 7.

- In the case of fair value hedge relationships, fair value changes of the underlying hedged item and the derivative instrument, due to changes in the reference interest rates, are almost entirely offset in the income statement for the year. Therefore, these financial instruments are not exposed to interest rate risk.

- The changes in value of financial instruments designated in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis.

- The changes in value, produced by changes in the reference interest rates of floating-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

- The changes in fair value of the two call options on 50% of Sofora Telecomunicaçiones S.A. share capital (at December 31, 2009 for a positive 60 million euros with a carrying amount equal to 130 million euros) have been determined using an internal valuation model in which the input values, *inter alia*, are the market value of the assets of Sofora Telecomunicaciones S.A., represented by the average share price of its direct investment (Nortel Inversora) and its indirect investment (Telecom Argentina through Nortel Inversora). The market prices of these investments are naturally subject to volatility and consequently influence the fair value of the options held by the Telecom Italia Group; accordingly, they are included in this analysis.

*Call options on Sofora Telecomunicaciones S.A. share capital Sensitivity analysis*

Assuming an increase (decrease) of 10% in the price of Sofora Telecomunicaciones S.A. s listed investment holdings (Nortel Inversora and, through this company, Telecom Argentina S.A.) and, therefore, the value of Sofora Telecomunicaciones S.A. s assets, the change in fair value of the options would have been more (less) 22.6 million euros, bringing the relative carrying amount to 152 million euros (107 million euros).

*Exchange rate risk Sensitivity analysis*

At December 31, 2009 (and at December 31, 2008), the exchange risk of the Group s loans denominated in currencies other than the euro was fully hedged. For this reason, a sensitivity analysis has not been performed on the exchange risk.

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*Interest rate risk Sensitivity analysis*

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group s derivatives. In particular:

- with regard to the derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with the international accounting standards that regulate hedge accounting, the mark-to-market measurement of such instruments is accrued in a specific undistributable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables insignificant. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

- if at December 31, 2009 the interest rates in the various markets in which the Telecom Italia Group operates had been 100 basis points higher (lower) compared to that actually realized, then higher (lower) finance expenses, before the tax effect, would have been recognized in the income statement for 77 million euros (52 million euros in 2008).

*Allocation of the financial structure between fixed rate and floating rate*

As for the allocation of the financial structure between the fixed-rate component and the floating-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, euro commercial paper and receivables on sales of securities), has been considered in the category of floating rate.

**Financial liabilities (at the nominal repayment amount)**

| | As of December 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total |
| | (millions of euros) | | | | | |
| Bonds | 17,999 | 10,533 | 28,532 | 21,289 | 6,957 | 28,246 |
| Convertible bonds | 574 | | 574 | 574 | | 574 |
| Loans and other payables(*) | 7,048 | 5,213 | 12,261 | 7,289 | 4,109 | 11,398 |
| **Total(**)** | **25,621** | **15,746** | **41,367** | **29,152** | **11,066** | **40,218** |

(*) At December 31, 2009, current liabilities total 477 million euros, of which 370 million euros is at floating rates (782 million euros at December 31, 2008, of which 700 million euros was at floating rates).

(**) Liabilities directly associated with Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

**Financial assets (at the nominal investment amount)**

| | As of December 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total |
| | (millions of euros) | | | | | |
| Deposits and cash | | 4,614 | 4,614 | | 4,412 | 4,412 |
| Euro commercial paper | | 20 | 20 | | 100 | 100 |
| Receivables on sales of securities | | | | | 493 | 493 |
| Securities | 31 | 2,675 | 2,706 | 25 | 570 | 595 |
| Other receivables | 504 | 737 | 1,241 | 636 | 255 | 891 |
| **Total(*)** | **535** | **8,046** | **8,581** | **661** | **5,830** | **6,491** |

(*) Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

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With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

*Effective interest rate*

Such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The information, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

**Financial liabilities**

| | As of December 31, 2009 | | As of December 31, 2008 | |
|---|---|---|---|---|
| | Adjusted carrying amount (millions of euros) | Effective interest rate (%) | Adjusted carrying amount (millions of euros) | Effective interest rate (%) |
| Bonds | 28,428 | 5.87 | 28,147 | 5.95 |
| Convertible bonds | 574 | 7.42 | 541 | 7.42 |
| Loans and other payables | 10,030 | 4.38 | 9,416 | 5.23 |
| **Total(*)** | **39,032** | **5.51** | **38,104** | **5.80** |

(*) Liabilities directly associated with Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

**Financial assets**

| | As of December 31, 2009 | | As of December 31, 2008 | |
|---|---|---|---|---|
| | Adjusted carrying amount (millions of euros | Effective interest rate (%) | Adjusted carrying amount (millions of euros) | Effective interest rate (%) |
| Deposits and cash | 4,614 | 0.34 | 4,412 | 2.51 |
| Euro Commercial Papers | 20 | 0.70 | 100 | 2.89 |
| Receivables on sale of securities | | | 493 | 1.60 |
| Securities | 2,706 | 4.02 | 595 | 10.71 |
| Other receivables | 1,024 | 4.59 | 515 | 6.10 |
| **Total(*)** | **8,364** | **2.05** | **6,115** | **3.55** |

(*) Assets directly associated with Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

With reference to the concept of market risk, in the broad sense, the Group has interest coupon step-ups and step-downs for certain bonds that change in relation to changes in ratings. Such mechanisms, however, do not affect interest rate exposure or the determination of the current effective interest rate. Further information is provided in the Note *Financial liabilities (current and non-current)* .

As for market risk management using derivatives, reference should be made to the Note *Derivatives* .

***Credit risk***

The management of the Group s liquidity is guided by prudent criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period;

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- bond portfolio management: the investment of a permanent level of liquidity, the investment of that part of liquidity which is expected to turn around for cash requirement purposes after a 12-month period, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with leading high-credit-quality banking and financial institutions with at least an A rating and generally for periods of less than three months. As for the other temporary investments of liquidity, there are investments in Euro Commercial Papers (the issuers all have an A- rating by Standard & Poor s and headquarters in Europe). With regard to bond portfolio management, the issuers have at least a BBB rating. For further details please see Note *Securities other than investments (current assets)* .

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and assignment of its credit positions among different banking counterparts. Consequently, there are no significant positions with any one single counterpart.

***Liquidity risk***

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2009, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 18-24 months.

13% of gross financial debt at December 31, 2009 (nominal repayment amount) will become due in the following 12 months**.**

Maturities of non-current financial liabilities (including the current portion of medium/long-term debt) in terms of the expected nominal repayment amount are the following:

| | Maturing by December 31, of the year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | After 2014 | Total |
| | (millions of euros) | | | | | | |
| Bonds | 2,842 | 4,136 | 3,250 | 3,388 | 2,735 | 12,755 | 29,106 |
| Loans and other financial liabilities | 2,303 | 618 | 284 | 918 | 2,770 | 3,092 | 9,985 |
| Finance lease liabilities | 233 | 181 | 165 | 138 | 122 | 960 | 1,799 |
| **Total** | **5,378** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **40,890** |

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The following table reports the contractual cash flows not discounted to present value relative to gross financial debt at nominal repayment amounts; the interest flows have been determined using the conditions and interest and exchange rates prevailing at December 31, 2009. The principal and interest portions of the hedged liabilities include both the disbursements and the receipts of the related hedging derivatives.

**Financial liabilities Maturities of contractually expected disbursements**

| | | Maturing by December 31, of the year | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2010 | 2011 | 2012 | 2013 | 2014 | After 2014 | Total |
| | | (millions of euros) | | | | | | |
| Bonds | Principal | 2,842 | 4,136 | 3,250 | 3,388 | 2,735 | 12,755 | 29,106 |
| | Interest | 1,569 | 1,512 | 1,292 | 1,127 | 925 | 8,794 | 15,219 |
| Loans and other financial liabilities | Principal | 2,303 | 618 | 284 | 918 | 2,770 | 3,092 | 9,985 |
| | Interest | 251 | 160 | 190 | 138 | 65 | (420) | 384 |
| Finance lease liabilities | Principal | 233 | 181 | 165 | 138 | 122 | 960 | 1,799 |
| | Interest | 114 | 107 | 100 | 92 | 85 | 323 | 821 |
| Non current financial liabilities(*) | Principal | 5,378 | 4,935 | 3,699 | 4,444 | 5,627 | 16,807 | 40,890 |
| | Interest | 1,934 | 1,779 | 1,582 | 1,357 | 1,075 | 8,697 | 16,424 |
| Current financial liabilities(**) | Principal | 477 | | | | | | 477 |
| | Interest | 16 | | | | | | 16 |
| **Total** | **Principal** | **5,855** | **4,935** | **3,699** | **4,444** | **5,627** | **16,807** | **41,367** |
| | **Interest** | **1,950** | **1,779** | **1,582** | **1,357** | **1,075** | **8,697** | **16,440** |

(*) Hedging Derivatives are included.

(**) Derivatives are included (hedging and non-hedging).

**Derivatives Contractually expected interest flows**

| | Maturing by December 31, of the year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | After 2014 | Total |
| | (millions of euros) | | | | | | |
| Disbursements | 838 | 792 | 767 | 768 | 623 | 4,920 | 8,708 |
| Receipt | (810) | (825) | (762) | (776) | (669) | (5,553) | (9,395) |
| **Hedging derivatives net income** | **28** | **(33)** | **5** | **(8)** | **(46)** | **(633)** | **(687)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Disbursements | 19 | | | | | | 19 |
| Receipt | (4) | | | | | | (4) |
| **Non-hedging derivatives net income** | **15** | | | | | | **15** |
| **Total net disbursements** | **43** | **(33)** | **5** | **(8)** | **(46)** | **(633)** | **(672)** |

Furthermore, at the beginning of 2010, the Group proceeded to refinance debt as follows:

- on February 10, 2010, Telecom Italia S.p.A. issued bonds for 1,250 million euros, annual coupon of 5.25%, maturing February 10, 2022;

- on February 12, 2010, Telecom Italia S.p.A. signed a new revolving line of credit with leading credit institutions for an amount of 1,250 million euros for a period of three years. This is a back-up line which raises the Group s financial flexibility.

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***Fair value of derivatives***

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.

Mark-to-market is calculated by discounting interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.

The fair value of CCIRSs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference principal, in the respective currencies of denomination.

**NOTE 21 DERIVATIVES**

Derivative financial instruments are used by the Telecom Italia Group to hedge its exposure to foreign exchange rate risk, the change in commodity prices and manage interest rate risk and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2009 are principally used to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards and currency options to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRS and IRO transactions, respectively, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or floating rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly on demand.

The following tables present the derivative transactions put into place by the Telecom Italia Group at December 31, 2009, divided between fair value hedge derivatives (Table 1 Fair Value Hedge Derivatives), cash flow hedge derivatives (Table 2 Cash Flow Hedge Derivatives) and

non-hedge accounting derivatives (Table 3 Non-Hedge Accounting Derivatives) in accordance with IAS 39.

**Table 1 Fair Value Hedge Derivatives**

| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on Telecom Italia Finance S.A. bonds of 20 billion JPY (equivalent amount of 150 million euros at 12/31/2009), broken down as follows: | | |
| · by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY; | | |
| · by Telecom Italia Finance S.A., the sale of an swaption exercisable annually, from 2012 to 2031, to hedge the call option embedded in the underlying debt, through which TI Finance sold the right to pay a semiannual floating rate in JPY and to receive a fixed rate of 3.55%; | | |
| · by Telecom Italia S.p.A., a CCIRS contract on an intragroup floating-rate loan in JPY, in which Telecom Italia S.p.A. receives 6-month LIBOR in JPY and pays 6-month Euribor. | 172 | (58) |

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| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| CCIRS transactions put into place by Telecom Italia S.p.A. on bonds for a total amount of 3,500 million USD (equivalent amount of 2,430 million euros at 12/31/2009) issued by Telecom Italia Capital S.A. in October 2004 (5-year tranche of 1,250 million USD, 10-year tranche of 1,250 million USD and 30-year tranche of 1,000 million USD), converting the coupon fixed rate in USD to the 6-month Euribor. | 2,819 | (328) |
| CCIRS transactions put into place by Telecom Italia S.p.A. on bonds for a total amount of 2,500 million USD (equivalent amount of 1,736 million euros at 12/31/2009) issued by Telecom Italia Capital S.A. in September 2005 (5-year tranche of 700 million USD, 5.35-year tranche of 400 million USD and 10-year tranche of 1,400 million USD), converting the coupon rate in USD to the 6-month Euribor. | 2,068 | (278) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing July 2011 on the two 5-year tranches of a total 1,600 million USD (equivalent amount of 1,111 million euros at 12/31/2009) on bonds for a total amount of 2,600 million USD issued by Telecom Italia Capital S.A. in July 2006, converting the coupon rate (respectively, 6.2% in USD and the 3-month Libor in USD +0.61%) to the 6-month Euribor. | 1,264 | (128) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2014 on bonds of 500 million euros issued by Telecom Italia S.p.A. in January 2009, converting the coupon rate of 7.875% to the 6-month Euribor. | 500 | (2) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2013 on bonds of 650 million euros issued by Telecom Italia S.p.A. in March 2009, converting the coupon rate of 6.75% to the 1-month Euribor. | 650 | 7 |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2016 on bonds of 850 million euros issued by Telecom Italia S.p.A. in March 2009, converting the coupon rate of 8.25% to the 1-month Euribor. | 850 | 11 |
| CCIRS put into place by Telecom Italia S.p.A. maturing December 2017 on bonds of 750 million GBP (equivalent amount at 12/31/2009 of 845 million euros) issued by Telecom Italia S.p.A. in May 2009, converting the coupon rate of 3.64745% to the 3-month Euribor. | 851 | (31) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2011 on BTP government securities in portfolio at 4.25%, notional amount of 350 million euros, converting the coupon rate of 4.25% to the 6-month Euribor. | 350 | (3) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2012 on BTP government securities in portfolio at 3%, notional amount of 350 million euros, converting the coupon rate of 3% to the 6-month Euribor. | 350 | (2) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2012 on BTP government securities in portfolio at 4.25%, notional amount of 100 million euros, converting the coupon rate of 4.25% to the 6-month Euribor. | 100 | (1) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2013 on BTP government securities in portfolio at 3.75%, notional amount of 100 million euros, converting the coupon rate of 3.75% to the 6-month Euribor. | 100 | |

| | | |
|---|---|---|
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2011 on bonds of 750 million euros issued by Telecom Italia S.p.A. in January 2004, converting the coupon rate of 4.5% to the 6-month Euribor. | 750 | 7 |
| IRS transactions put into place by Telecom Italia Finance S.A. maturing 2011 on bonds of 2,000 million euros issued by Telecom Italia Finance S.A. in April 2001, converting the coupon rate of 7.5% to the 6-month Euribor. | 250 | 2 |
| IRS transactions put into place by Telecom Italia S.p.A. maturing 2012 on bonds of 1,250 million euros issued by Telecom Italia S.p.A. in February 2002, converting the coupon rate of 6.25% to the 6-month Euribor. | 250 | (1) |
| **Total Fair Value Hedge Derivatives** | **11,324** | **(805)** |

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The method selected to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

**Table 2 Cash Flow Hedge Derivatives**

| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| USD/EUR collar options purchased by Elettra TLC S.p.A. to hedge contractual flows of 34 million USD expiring by June 2013 (monthly expiration dates), fixing the equivalent amount in euros in a range of between 21 and 26 million euros. | 26 | |
| Collar options on commodities purchased by Elettra TLC S.p.A. to hedge contractual flows expiring by December 2010, fixing the equivalent amount in euros in a range of between 4 and 5 million euros. | 5 | (1) |
| Forward purchases in USD by Elettra TLC S.p.A. to hedge a contractual flow equal to 6 million USD expiring November 2013. | 4 | |
| Forward purchases in USD by Telecom Italia S.p.A. to hedge quarterly contractual flows expiring by November 2011. | 3 | |
| Forward purchases in USD by Telecom Italia S.p.A. to hedge monthly commercial contractual flows expiring by November 2013. | 1 | |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2013 on the 10-year tranche of 2,000 million USD (equivalent amount of 1,388 million euros at 12/31/2009) on bonds for a total of 4,000 million USD issued by Telecom Italia Capital S.A. in October 2003, converting the coupon rate of 5.25% in USD to the fixed rate of 5.0349% in euros. | 1,709 | (360) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on quarterly floating-rate bonds of 120 million euros issued by Telecom Italia S.p.A. (2004-2015), converting the 3-month Euribor to an annual fixed rate of 4.1605%. | 120 | (4) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of 500 million GBP (equivalent amount of 563 million euros at 12/31/2009), issued by Telecom Italia S.p.A. in June 2005, converting a coupon rate of 5.625% in GBP to a fixed rate of 4.34117% in euros. | 751 | (188) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2019 on bonds of 850 million GBP (equivalent amount at 12/31/2009 of 957 million euros) issued by Telecom Italia S.p.A. in June 2004, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.3108% in euros. | 1,258 | (336) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of 400 million GBP (equivalent amount of 450 million euros at 12/31/2009) issued by Telecom Italia S.p.A. in May 2006, converting a coupon rate of 5.875% in GBP to a fixed rate of 5.5345% in euros. | 587 | (171) |

| | | |
|---|---|---|
| IRS transactions put into place by Telecom Italia S.p.A. maturing December 2010 on floating-rate bonds of 1,000 million euros issued by Telecom Italia S.p.A. in December 2005 and maturing December 2012, converting a coupon rate of Euribor +0.53% to a fixed rate of 4.5404% in euros. | 1,000 | (27) |

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| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the private placement of the Telecom Italia Finance S.A. Dual-Currency loan of 20 billion JPY (equivalent amount of 150 million euros at 12/31/2009). The following were put into place: | | |
| · by Telecom Italia S.p.A., an IRS contract converting the fixed rate of 5% in USD to the 6-month Libor in JPY; | | |
| · by Telecom Italia S.p.A., a CCIRS contract with which Telecom Italia S.p.A., on the intragroup loan in JPY, receives the 6-month Libor in JPY and pays the 6-month Euribor; | | |
| · by Telecom Italia S.p.A., an IRS contract converting the 6-month Euribor to the fixed rate of 6.9395% in euros. | 174 | (58) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the 30-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 4,000 million USD issued by Telecom Italia Capital S.A. in October 2003, converting the coupon rate of 6.375% in USD to a fixed rate of 5.994% in euros. | 849 | (245) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing July 2036 on the 30-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 2,600 million USD issued by Telecom Italia Capital S.A. in July 2006, converting the coupon rate of 7.20% in USD to a fixed rate of 5.88429% in euros. | 791 | (60) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing July 2013 on quarterly floating-rate bonds of 500 million euros issued by Telecom Italia S.p.A. (2007-2013), converting the 3-month Euribor rate to an annual fixed rate of 4.334%. | 500 | (34) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2018 on the 10-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 2,000 million USD issued by Telecom Italia Capital S.A. in May 2008, converting the coupon rate of 6.999% in USD to a fixed rate of 7.01232% in euros. | 642 | 21 |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2038 on the 30-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 2,000 million USD issued by Telecom Italia Capital S.A. in May 2008, converting the coupon rate of 7.721% in USD to a fixed rate of 7.45122% in euros. | 645 | (13) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing June 2016 on quarterly floating-rate bonds of 400 million euros issued by Telecom Italia S.p.A. (2007-2016), converting the 3-month Euribor to a semiannual fixed rate of 4.9425%. | 400 | (47) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing August 2014 on the monthly floating-rate revolving credit facility of 1,500 million euros, converting the 1-month Euribor to a semiannual fixed rate of 4.82583%. | 1,500 | (163) |

| | | |
|---|---|---|
| IRS transactions put into place by Telecom Italia S.p.A. maturing March 2014 on the semiannual floating-rate EIB loan of 350 million euros, converting the 6-month Euribor to a semiannual fixed rate of 4.93457%. | 350 | (32) |
| IRS transactions put into place by Telecom Italia S.p.A. maturing September 2013 on the quarterly floating-rate EIB loan of 400 million euros, converting the 3-month Euribor to a semiannual fixed rate of 5.03388%. | 400 | (38) |

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| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| IRS transactions put into place by Telecom Italia S.p.A. maturing December 2013 on the semiannual floating-rate EIB loan of 100 million euros, converting the 6-month Euribor to a semiannual fixed rate of 4.832%. | 100 | (9) |
| CCIRS put into place by Telecom Italia S.p.A. maturing December 2017 on bonds of 750 million GBP (equivalent amount at 12/31/2009 of 845 million euros) issued by Telecom Italia S.p.A. in May 2009, converting a component of the coupon rate of 3.72755% to a fixed rate of 3.82901% in euros. | 851 | (22) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2014 on the 5-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 2,000 million USD issued by Telecom Italia Capital S.A. in June 2009, converting the coupon rate of 6.175% in USD to a fixed rate of 5.8186% in euros. | 719 | (31) |
| CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2019 on the 10-year tranche of 1,000 million USD (equivalent amount of 694 million euros at 12/31/2009) on bonds for a total of 2,000 million USD issued by Telecom Italia Capital S.A. in June 2009, converting the coupon rate of 7.175% in USD to a fixed rate of 6.694% in euros. | 722 | (51) |
| Forward start IRS transactions put into place by Telecom Italia S.p.A. maturing July 2015 on coupon flows of a future bond issue of 350 million euros to be issued by Telecom Italia S.p.A. (2010-2015), converting, the 6-month Euribor to an annual fixed rate of 3.47257%. | 350 | (6) |
| **Total Cash Flow Hedge Derivatives** | **14,457** | **(1,875)** |

The hedge of cash flows by derivatives designated as Cash Flow Hedges was considered highly effective and at December 31, 2009 led to:

- recognition of an unrealized loss in equity for 1,296 million euros;
- reversal from equity to the income statement of net gains from exchange rate adjustments for 72 million euros.

Furthermore, at December 31, 2009, the total gain of the hedging instruments that is still recognized in equity amounts to 2 million euros as a result of the effect of transactions early terminated over the years. The positive impact reversed to the income statement during 2009 is 19 million euros.

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The transactions hedged by Cash Flow Hedges will generate cash flows and will produce economic effects in the income statement in the periods indicated in the following table:

| Currency of denomination | Notional amount in currency of denomination (millions) | Start of period | End of period | Rate applied | Interest period |
|---|---|---|---|---|---|
| USD | 2,000 | Jan 2010 | Nov 2013 | 5.25% | Semiannually |
| Euro | 120 | Jan 2010 | Nov 2015 | Euribor 3-month +0.66% | Quarterly |
| GBP | 500 | Jan 2010 | June 2015 | 5.625% | Annually |
| GBP | 850 | Jan 2010 | June 2019 | 6.375% | Annually |
| GBP | 400 | Jan 2010 | May 2023 | 5.875% | Annually |
| Euro | 1,000 | Jan 2010 | Dec 2010 | Euribor 3-month +0.53% | Quarterly |
| USD | 186 | Jan 2010 | Oct 2029 | 5.45% | Semiannually |
| USD | 1,000 | Jan 2010 | Nov 2033 | 6.375% | Semiannually |
| USD | 1,000 | Jan 2010 | July 2036 | 7.20% | Semiannually |
| Euro | 500 | Jan 2010 | July 2013 | Euribor 3-month +0.63% | Quarterly |
| USD | 1,000 | Jan 2010 | June 2018 | 6.999% | Semiannually |
| USD | 1,000 | Jan 2010 | June 2038 | 7.721% | Semiannually |
| Euro | 400 | Jan 2010 | June 2016 | Euribor 3-month +0.79% | Quarterly |
| Euro | 1,500 | Jan 2010 | Aug 2014 | Euribor 1-month +0.1575% | Monthly |
| Euro | 350 | Jan 2010 | Mar 2014 | EIB 6-month +0.29% | Semiannually |
| Euro | 400 | Jan 2010 | Sept 2013 | EIB 3-month +0.15% | Quarterly |
| Euro | 100 | Jan 2010 | Dec 2013 | Euribor 6-month -0.023% | Semiannually |
| GBP | 750 | Jan 2010 | Dec 2017 | 3.72755% | Annually |
| USD | 1,000 | Jan 2010 | June 2014 | 6.175% | Semiannually |
| USD | 1,000 | Jan 2010 | June 2019 | 7.175% | Semiannually |
| EUR | 350 | July 2010 | July 2015 | Swap rate 5 years | Annually |

The method selected to test the effectiveness, retrospectively and prospectively, of Cash Flow Hedge derivatives, whenever the principal terms do not fully coincide, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion from designated Cash Flow Hedge derivatives recognized in the income statement during 2009 is immaterial.

**Table 3 Non-Hedge Accounting Derivatives**

| Description | Notional amount | Mark-to-Market (Clean Price) |
|---|---|---|
| | (millions of euros) | |
| Sale of receiver swaptions maturing December 2012 put into place by Telecom Italia Finance S.A. with bonds issued by Telecom Italia S.p.A. in December 2005 maturing 12/6/2012 as the underlying. If exercised, Telecom Italia Finance S.A. would collect 6-month Euribor and pay an annual fixed rate of 3%. | 250 | (2) |

| | | |
|---|---|---|
| Exchange rate transactions put into place by Telecom Italia S.p.A. | 11 | |
| Exchange rate transactions put into place by Telecom Italia Finance S.A. | 84 | (1) |
| Exchange rate transactions put into place by Telecom Italia Capital S.A. | 15 | |
| Exchange rate transactions put into place by Olivetti S.p.A. | 3 | |
| Interest and exchange rate transactions put into place by Tim Celular S.A. (includes the transactions of Tim Nordeste S.A., now merged into Tim Celular S.A.) | 586 | (18) |
| **Total Non-Hedge Accounting Derivatives** | **949** | **(21)** |

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The following table presents the derivatives of the Telecom Italia Group by type:

| Type | Hedged Risk | Notional amount at 12/31/2009 | Notional amount at 12/31/2008 | Mark-to-Market Spot (Clean Price) at 12/31/2009 (millions of euros) | Mark-to-Market Spot (Clean Price) at 12/31/2008 |
|---|---|---|---|---|---|
| Interest rate swaps | Interest rate risk | 4,150 | | 18 | |
| Cross Currency and Interest Rate Swaps | Interest rate risk and currency exchange rate risk | 7,174 | 6,335 | (823) | (166) |
| **Total Fair Value Hedge Derivatives** | | **11,324** | **6,335** | **(805)** | **(166)** |
| Interest rate swaps | Interest rate risk | 4,720 | 4,480 | (360) | (268) |
| Cross Currency and Interest Rate Swaps | Interest rate risk and currency exchange rate risk | 9,698 | 7,406 | (1,514) | (255) |
| Commodity Options | Commodity risk (energy) | 5 | 9 | (1) | (3) |
| Forward and FX Options | Currency exchange rate risk | 34 | 40 | | (1) |
| **Total Cash Flow Hedge Derivatives** | | **14,457** | **11,935** | **(1,875)** | **(527)** |
| **Total Non-Hedge Accounting Derivatives** | | **949** | **739** | **(21)** | **110** |
| **Total Telecom Italia Group Derivatives** | | **26,730** | **19,009** | **(2,701)** | **(583)** |

## NOTE 22 SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

### Measurement at fair value

The majority of non-current financial liabilities of the Telecom Italia Group are composed of bonds, the fair value of which can be easily determined by reference to financial instruments which, in terms of size and diffusion among investors, are commonly traded on the relative markets (see the Note *Financial Liabilities current and non-current* ). However, as concerns other types of financing, the following assumptions have been made in order to determine fair value:

- for floating-rate loans, the nominal repayment amount has been assumed;

- for fixed-rate loans, fair value has been assumed: the present value of future cash flows using interest rates prevailing at December 31, 2009.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. The fair value hierarchy introduces three levels of input:

- Level 1: quoted prices in active markets;

- Level 2: prices calculated using observable market inputs;

- Level 3: prices calculated using inputs that are not based on observable market data.

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The following tables set out, for assets and liabilities at December 31, 2009 and 2008 and in accordance with the categories established by IAS 39, the supplementary disclosures on financial instruments required by IFRS 7 and the schedules of gains and losses. Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale are excluded.

**Key for IAS 39 categories**

| | Acronym |
|---|---|
| Loans and Receivables | LaR |
| Financial assets Held-to-Maturity | HtM |
| Financial assets Available-for-Sale | AfS |
| Financial Assets/Liabilities Held for Trading | FAHfT and FLHfT |
| Financial Liabilities at Amortized Cost | FLAC |

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**Carrying amount for each class of financial asset/liability as of December 31, 2009**

| | IAS 39 categories | Note | Carrying amounts in the financial statements 12/31/2009 | Amounts recognized in the financial statements according to IAS 39 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Amortized cost | Cost | Fair value taken to equity | Fair value recognized in the income statement | Amounts recognized in the financial statements according to IAS 17 |
| | | | | | (millions of euros) | | | |
| **Assets** | | | | | | | | |
| Other investments | AFS | 8) | 53 | | 32 | 21 | | |
| Securities, financial receivables and other non-current financial assets | | | | | | | | |
| *of which loans and receivables* | LaR | 8) | 72 | 72 | | | | |
| *of which securities* | AFS | 8) | 15 | | | 15 | | |
| *of which hedging derivatives* | n.a. | 8) | 792 | | | 520 | 272 | |
| *of which receivables for lessors net investments* | n.a. | 8) | 228 | | | | | 228 |
| Miscellaneous receivables and other non-current assets(*) | | | | | | | | |
| *of which loans and receivables* | LaR | 8) | 150 | 133 | 17 | | | |
| *of which other financial assets at fair value* | n.a. | 8) | 130 | | | | 130 | |
| | | **(A)** | **1,440** | **205** | **49** | **556** | **402** | **228** |
| Trade and miscellaneous receivables and other current assets(*) | | | | | | | | |
| *of which loans and receivables* | LaR | 11) | 6,375 | 6,375 | | | | |
| Investments (Current Assets) | AFS | 13) | 39 | | 39 | | | |
| Securities | | | | | | | | |
| *of which available-for-sale* | AFS | 14) | 1,093 | | | 1,093 | | |
| *of which held for trading* | FAHfT | 14) | 750 | | | | 750 | |
| Financial receivables and other current financial assets | | | | | | | | |
| *of which loans and receivables* | LaR | 15) | 655 | 655 | | | | |
| *of which non-hedging derivatives* | FAHfT | 15) | 32 | | | | 32 | |
| *of which hedging derivatives* | n.a. | 15) | 310 | | | 100 | 210 | |
| *of which receivables for lessors net investments* | n.a. | 15) | 118 | | | | | 118 |
| Cash and cash equivalents | LaR | 16) | 5,504 | 5,504 | | | | |
| | | **(B)** | **14,876** | **12,534** | **39** | **1,193** | **992** | **118** |
| | | **(A+B)** | **16,316** | **12,739** | **88** | **1,749** | **1,394** | **346** |
| **Liabilities** | | | | | | | | |
| Non-current financial liabilities | | | | | | | | |
| *of which liabilities at amortized cost(**)* | FLAC/n.a. | 19) | 32,112 | 32,112 | | | | |
| *of which hedging derivatives* | n.a. | 19) | 3,075 | | | 2,305 | 770 | |
| *of which financial lease liabilities* | n.a. | 19) | 1,565 | | | | | 1,565 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **(C)** | **36,752** | **32,112** | **2,305** | **770** | **1,565** |
| Current financial liabilities | | | | | | | |
| *of which liabilities at amortized cost(**)* | FLAC/n.a. | 19) | 6,225 | 6,225 | | | |
| *of which non-hedging derivatives* | FLHfT | 19) | 69 | | | 69 | |
| *of which hedging derivatives* | n.a. | 19) | 442 | | 153 | 289 | |
| *of which financial lease liabilities* | n.a. | 19) | 250 | | | | 250 |
| Trade and miscellaneous payables and other current liabilities(*) | | | | | | | |
| *of which liabilities at amortized cost* | FLAC | 26) | 6,950 | 6,950 | | | |
| | | **(D)** | **13,936** | **13,175** | **153** | **358** | **250** |
| | | **(C+D)** | **50,688** | **45,287** | **2,458** | **1,128** | **1,815** |

(*) Part of assets or liabilities falling under the scope of IFRS 7.

(**) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Comparison between carrying amount and fair value for each class of financial asset/liability as of December 31, 2009**

| | | | Amounts recognized in the financial statements according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 categories | Carrying amounts in the financial statements 12/31/2009 | Amortized cost | Cost | Fair value taken to equity | Fair value recognized in the income statement | Amounts recognized in the financial statements according to IAS 17 | Fair Value at 12/31/2009 |
| | | | | | (millions of euros) | | | |
| **Assets** | | | | | | | | |
| Loans and receivables | LaR | 12,756 | 12,739 | 17 | | | | 12,756 |
| Available-for-sale financial assets | AFS | 1,200 | | 71 | 1,129 | | | 1,200 |
| Financial assets at fair value through profit or loss held for trading | FAHfT | 782 | | | | 782 | | 782 |
| *Of which non-hedging derivatives* | FAHfT | 32 | | | | 32 | | 32 |
| Hedging derivatives | n.a. | 1,102 | | | 620 | 482 | | 1,102 |
| Other financial assets at fair value | n.a. | 130 | | | | 130 | | 130 |
| Assets measured according to IAS 17 | n.a. | 346 | | | | | 346 | 346 |
| | | **16,316** | **12,739** | **88** | **1,749** | **1,394** | **346** | **16,316** |
| **Liabilities** | | | | | | | | |
| Financial liabilities at amortized cost(*) | FLAC/n.a. | 45,287 | 45,287 | | | | | 49,670 |
| Financial liabilities at fair value through profit or loss held for trading | FLHfT | 69 | | | | 69 | | 69 |
| *Of which non-hedging derivatives* | FLHfT | 69 | | | | 69 | | 69 |
| Hedging derivatives | n.a. | 3,517 | | | 2,458 | 1,059 | | 3,517 |
| Liabilities measured according to IAS 17 | n.a. | 1,815 | | | | | 1,815 | 2,240 |
| | | **50,688** | **45,287** | | **2,458** | **1,128** | **1,815** | **55,496** |

(*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Fair value hierarchy level for each class of financial asset/liability as of December 31, 2009**

| | IAS 39 categories | Note | Carrying amounts in the financial statements 12/31/2009 | Hierarchy levels | | |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | Level 1(*) | Level 2(*) | Level 3(*) |
| **Assets** | | | | | | |
| Non-current financial assets | | | | | | |
| Other investments | AfS | 8) | 53 | 3 | 18 | |
| Securities, financial receivables and other non-current financial assets | | | | | | |
| *of which securities* | AfS | 8) | 15 | 15 | | |
| *of which hedging derivatives* | n.a. | 8) | 792 | | 792 | |
| Miscellaneous receivables and other non-current assets | | | | | | |
| *of which other financial assets at fair value* | n.a. | 8) | 130 | | | 130 |
| **(A)** | | | **990** | **18** | **810** | **130** |
| **Current financial assets** | | | | | | |
| Securities | | | | | | |
| *of which available-for-sale* | AFS | 14) | 1,093 | 113 | 980 | |
| *of which held for trading* | FAHfT | 14) | 750 | 750 | | |
| Financial receivables and other current financial assets | | | | | | |
| *of which non-hedging derivatives* | FAHfT | 15) | 32 | | 32 | |
| *of which hedging derivatives* | n.a. | 15) | 310 | | 310 | |
| **(B)** | | | **2,185** | **863** | **1,322** | |
| **(A+B)** | | | **3,175** | **881** | **2,132** | **130** |
| **Liabilities** | | | | | | |
| Non-current financial liabilities | | | | | | |
| *of which hedging derivatives* | n.a. | 19) | 3,075 | | 3,075 | |
| **(C)** | | | **3,075** | | **3,075** | |
| Current financial liabilities | | | | | | |
| *of which non-hedging derivatives* | FLHfT | 19) | 69 | | 69 | |
| *of which hedging derivatives* | n.a. | 19) | 442 | | 442 | |
| **(D)** | | | **511** | | **511** | |
| **(C+D)** | | | **3,586** | | **3,586** | |

(*) Level 1: listed prices (unadjusted) in active markets.

Level 2: input levels other than listed prices included in level 1 observable either directly or indirectly.

Level 3: inputs not based on observable market data.

Miscellaneous receivables and other non-current assets measured at fair value classified in Level 3 refer entirely to the carrying amount of options to purchase 50% of Sofora Telecomunicaciones S.A. share capital for 130 million euros. The fair value measurement of the two call options has been determined by reference to an internal valuation model based on methodologies currently used in market practice. These input values are, *inter alia*, the market value of the assets of Sofora Telecomunicaciones S.A. obtained from the average share prices of its direct investment in Nortel Inversora and its indirect investment in Telecom Argentina through Nortel Inversora. The market prices of such investments are naturally subject to volatility and as a consequence influence the fair value of the options held by the Telecom Italia Group. Compared to December 31, 2008, the changes in fair value of the two call options are a positive 60 million euros.

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**Consolidated Financial Statements** **Notes To Consolidated Financial Statements**

**Carrying amount for each class of financial asset/liability as of December 31, 2008**

| | | | | Amounts recognized in the financial statements according to IAS 39 | | | | |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 categories | Note | Carrying amounts in the financial statements 12/31/2008 | Amortized cost | Cost | Fair value taken to equity | Fair value recognized in the income statement | Amounts recognized in the financial statements according to IAS 17 |
| | | | | | (millions of euros) | | | |
| **Assets** | | | | | | | | |
| **Non current financial assets** | | | | | | | | |
| Other investments | AfS | 8) | 57 | | 39 | 18 | | |
| Securities, financial receivables and other non-current financial assets | | | | | | | | |
| *of which loans and receivables* | LaR | 8) | 81 | 81 | | | | |
| *of which securities* | AFS | 8) | 15 | | | 15 | | |
| *of which hedging derivatives* | n.a. | 8) | 2,310 | | | 1,609 | 701 | |
| *of which receivables for lessors net investments* | n.a. | 8) | 257 | | | | | 257 |
| Miscellaneous receivables and other non-current assets(*) | | | | | | | | |
| *of which loans and receivables* | LaR | 8) | 29 | 14 | 15 | | | |
| *of which other financial assets at fair value* | n.a. | 8) | 70 | | | | 70 | |
| | | **(A)** | **2,819** | **95** | **54** | **1,642** | **771** | **257** |
| **Current financial assets** | | | | | | | | |
| Trade and miscellaneous receivables and other current assets(*) | | | | | | | | |
| *of which loans and receivables* | LaR | 11) | 6,983 | 6,983 | | | | |
| Investments (Current assets) | AFS | 13) | 39 | | 39 | | | |
| Securities | | | | | | | | |
| *of which available-for-sale* | AFS | 14) | 74 | | | 74 | | |
| *of which held for trading* | FAHfT | 14) | 111 | | | | 111 | |
| Financial receivables and other current financial assets | | | | | | | | |
| *of which loans and receivables* | LaR | 15) | 46 | 46 | | | | |
| *of which non-hedging derivatives* | FAHfT | 15) | 122 | | | | 122 | |
| *of which hedging derivatives* | n.a. | 15) | 180 | | | 97 | 83 | |
| *of which receivables for lessors net investments* | n.a. | 15) | 143 | | | | | 143 |
| Cash and cash equivalents | LaR | 16) | 5,416 | 5,416 | | | | |
| | | **(B)** | **13,114** | **12,445** | **39** | **171** | **316** | **143** |
| | | **(A+B)** | **15,933** | **12,540** | **93** | **1,813** | **1,087** | **400** |
| **Liabilities** | | | | | | | | |
| **Non-current financial liabilities** | | | | | | | | |
| *of which liabilities at amortized cost(**)* | FLAC/n.a. | 19) | 31,937 | 31,937 | | | | |
| *of which hedging derivatives* | n.a. | 19) | 2,877 | | | 2,073 | 804 | |
| *of which financial lease liabilities* | n.a. | 19) | 1,713 | | | | | 1,713 |
| | | **(C)** | **36,527** | **31,937** | | **2,073** | **804** | **1,713** |
| **Current financial liabilities** | | | | | | | | |
| *of which liabilities at amortized cost(**)* | FLAC/n.a. | 19) | 5,732 | 5,732 | | | | |
| *of which non-hedging derivatives* | FLHfT | 19) | 25 | | | | 25 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| *of which hedging derivatives* | n.a. | 19) | 236 | | 110 | 126 | |
| *of which financial lease liabilities* | n.a. | 19) | 274 | | | | 274 |
| **Trade and miscellaneous payables and other current liabilities(*)** | | | | | | | |
| *of which liabilities at amortized cost* | FLAC | 26) | 7,540 | 7,540 | | | |
| | | **(D)** | **13,807** | **13,272** | **110** | **151** | **274** |
| | | **(C+D)** | **50,334** | **45,209** | **2,183** | **955** | **1,987** |

(*) Part of assets or liabilities falling under the scope of IFRS 7.

(**) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Comparison between carrying amount and fair value for each class of financial asset/liability as of December 31, 2008**

| | | | Amounts recognized in the financial statements according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 categories | Carrying amounts in the financial statements 12/31/2008 | Amortized cost | Cost | Fair value taken to equity | Fair value recognized in the income statement | Amounts recognized in the financial statements according to IAS 17 | Fair Value at 12/31/2008 |
| | | | | | (millions of euros) | | | |
| **Assets** | | | | | | | | |
| Loans and receivables | LaR | 12,555 | 12,540 | 15 | | | | 12,555 |
| Available-for-sale financial assets | AFS | 185 | | 78 | 107 | | | 185 |
| Financial assets at fair value through profit or loss held for trading | FAHfT | 233 | | | | 233 | | 233 |
| *Of which non-hedging derivatives* | FAHfT | 122 | | | | 122 | | 122 |
| Hedging derivatives | n.a. | 2,490 | | | 1,706 | 784 | | 2,490 |
| Other financial assets at fair value | n.a. | 70 | | | | 70 | | 70 |
| Assets measured according to IAS 17 | n.a. | 400 | | | | | 400 | 400 |
| | | **15,933** | **12,540** | **93** | **1,813** | **1,087** | **400** | **15,933** |
| **Liabilities** | | | | | | | | |
| Financial liabilities at amortized cost(*) | FLAC/n.a. | 45,209 | 45,209 | | | | | 41,735 |
| Financial liabilities at fair value through profit or loss held for trading | FLHfT | 25 | | | | 25 | | 25 |
| *Of which non-hedging derivatives* | FLHfT | 25 | | | | 25 | | 25 |
| Hedging derivatives | n.a. | 3,113 | | | 2,184 | 929 | | 3,113 |
| Liabilities measured according to IAS 17 | n.a. | 1,987 | | | | | 1,987 | 2,427 |
| | | **50,334** | **45,209** | | **2,184** | **954** | **1,987** | **47,300** |

(*) They also include those at adjusted amortized cost that quality for hedge accounting.

**Gains and losses by IAS 39 category 2009**

| | IAS 39 category | Net gains (losses), 2009(1) | *of which interest* |
|---|---|---|---|
| | | (millions of euros) | |
| Loans and receivables | LaR | (509) | 103 |
| Financial assets available for sale | AfS | (28) | |
| Financial assets and liabilities held for trading | FAHfT e FLHfT | (78) | |
| Financial liabilities at amortized cost(2) | FLAC | (1,958) | (1,941) |

| | | |
|---|---|---|
| **Total** | **(2,573)** | **(1,838)** |

(1) Of which, 1 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

(2) They include 60 million euros of gains relating to the measurement of the option on Sofora Telecomunicaciones S.A..

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**Gains and losses by IAS 39 category 2008**

| | IAS 39 category | Net gains (losses), 2008(1) | *of which interest* |
|---|---|---|---|
| | | (millions of euros) | |
| Loans and receivables | LaR | (551) | 292 |
| Financial assets available for sale | AfS | (1) | |
| Financial assets and liabilities held for trading | FAHfT e FLHfT | (84) | |
| Financial liabilities at amortized cost | FLAC | (2,115) | (2,105) |
| **Total** | | **(2,751)** | **(1,813)** |

(1) Of which, 1 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

## NOTE 23 EMPLOYEE BENEFITS

Employee benefits decreased by 174 million euros compared to December 31, 2008. Details are as follows:

| | | As of December 31, 2007 | Increases | Decreases | As of December 31, 2008 |
|---|---|---|---|---|---|
| | | | (millions of euros) | | |
| **Provision for employee severance indemnities** | **(A)** | **1,120** | **69** | **(77)** | **1,112** |
| Provision for pension plans | | 31 | 2 | (9) | 24 |
| Provision for termination benefit incentives | | 18 | 245 | (3) | 260 |
| **Total other provisions for employee benefits(*)** | **(B)** | **49** | **247** | **(12)** | **284** |
| **Total** | **(A+B)** | **1,169** | **316** | **(89)** | **1,396** |
| *Of which :* | | | | | |
| *Non-current portion* | | *1,151* | | | *1,212* |
| *Current portion(*)* | | *18* | | | *184* |

(*) The current portion refers only to Other provisions for employee benefits.

| | As of December 31, | Increases | Decreases | As of December 31, |
|---|---|---|---|---|

| | | 2008 | (millions of euros) | | 2009 |
|---|---|---|---|---|---|
| **Provision for employee severance indemnities** | **(A)** | **1,112** | **52** | **(113)** | **1,051** |
| Provision for pension plans | | 24 | 3 | (2) | 25 |
| Provision for termination benefit incentives | | 260 | 4 | (118) | 146 |
| **Total other provisions for employee benefits(*)** | **(B)** | **284** | **7** | **(120)** | **171** |
| **Total** | **(A+B)** | **1,396** | **59** | **(233)** | **1,222** |
| *Of which :* | | | | | |
| *Non-current portion* | | *1,212* | | | *1,075* |
| *Current portion(*)* | | *184* | | | *147* |

(*) The current portion refers only to Other provisions for employee benefits.

**Provision for employee severance indemnities** refers only to the Italian companies of the Group. The balance decreased 61 million euros as a result of the sum of accruals charged to the income statement (52 million euros for the interest matured for all Group companies, the charge for severance indemnity for companies with less than 50 employees and actuarial (gains) losses) and utilizations (-113 million euros for indemnities paid to employees who terminated employment and for advances).

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According to Law 297/1982, the amount to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable remuneration of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-prescribed interest earned. The liability is not associated with any vesting condition or period or any funding obligation; hence, there are no assets servicing the provision.

Under the regulations introduced by Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a Defined contribution plan .

However, revaluations of the provision for employee severance indemnities existing at the election date, for all companies, and also the amounts accrued and not assigned to supplementary pension plans, for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In accordance with IAS 19, this provision has been recognized as a Defined benefit plan .

Under IAS 19, employee severance indemnities have been calculated using the Traditional Unit Credit Method, for companies with at least 50 employees, and the Projected Unit Credit Cost pro rata service, for the others, based upon the following:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been estimated on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of future benefits includes any increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date only for employees of companies with less than 50 employees;

- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate and the probability that each benefit has to be effectively paid;

- the liability of each interested company has been determined as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees) or identifying the amount of the average present value of future benefits which refer to the employee s period of service to date in the company at the measurement date (for the others).

The following assumptions have been made:

| Financial assumptions | Executives | Non executives |
|---|---|---|
| Cost-of-living increases in the year of measurement (2009 estimated average) | 0.7% per annum | 0.7% per annum |
| afterwards | 1.9% per annum | 1.9% per annum |

| | | |
|---|---|---|
| Discount rate | 4.1% per annum | 4.1% per annum |
| Increase in remuneration | | |
| equal to or less than 40 years of age | 2.9% per annum | 2.9% per annum |
| over 40 years, but equal to or less than 55 years of age | 2.4% per annum | 2.4% per annum |
| over 55 years of age | 1.9% per annum | 1.9% per annum |

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| Demographic assumptions | Executives | Non executives |
|---|---|---|
| Probability of death | Mortality tables RG 48 published by Ragioneria Generale dello Stato | Mortality tables RG 48 published by Ragioneria Generale dello Stato |
| Probability of disability | Unisex tables based on a study published by C.N.R. for Università di Roma reduced by 80% | Unisex tables based on a study published by C.N.R. for Università di Roma reduced by 80% |
| Probability of resignation (in relation to the company): | | |
| up to 40 years of age | From 3.0% to 4.0% per annum | From 3.0% to 4.0% per annum |
| over 40 up to 50 years of age | From 1.5% to 2.5% per annum | From 1.5% to 2.5% per annum |
| over 50 years of age | None | None |
| Probability of retirement: | | |
| up to 60 years of age | 35% (100% for women) | 60% (100% for women) |
| over 60 but less than 65 years of age | 15% per annum | 10% per annum |
| at 65 years of age | 100% | 100% |
| Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70% | 3.0% in each year | 3.0% in each year |

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2009 and 2008, respectively, of 1,051 million euros and 1,112 million euros.

The effect on the income statement, included in Employee benefits expenses, is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Current service cost(*) | | | 17 |
| Finance expenses | 67 | 75 | 51 |
| Net actuarial (gains) losses recognized during the year | (15) | (6) | |
| **Total expense** | **52** | **69** | **68** |
| **Actuarial (gains) losses resulting from 2007 pension reform** | | | **(59)** |
| **Effective return on plan assets** | **n/a** | **n/a** | **n/a** |

(*)

Following the above-described social security reform, the amounts accruing that are assigned to the INPS Treasury Fund or to the supplementary pension funds are recorded under Employee benefits expense in Social security expenses and no longer in Employee severance indemnities expenses . The latter account will still be used only for the severance indemnity expenses of companies with less than 50 employees (equal, for the year, to 0.3 million euros).

**Provisions for pension plans** principally refer to pension plans operating in foreign companies of the Group.

**Provisions for termination benefit incentives** decreased by 114 million euros due to the utilization of the provision for collective dismissals under Law 223/91 ( **mobility** ) accrued in 2008 by the Parent, Telecom Italia, Telecom Italia Sparkle, Olivetti and Olivetti I-Jet.

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**NOTE 24 PROVISIONS**

Provisions increased by 170 million euros compared to December 31, 2008. The composition and changes in provisions are as follows:

| | As of December 31, 2008 | Increase | Used through income statement | Uses directly | Exchange differences and other changes | As of December 31, 2009 |
|---|---|---|---|---|---|---|
| | | | (millions of euros) | | | |
| Provision for taxation and tax risks | 114 | 22 | | (31) | 11 | 116 |
| Provision for restoration costs | 424 | 40 | | (10) | 4 | 458 |
| Provision for legal disputes | 207 | 176 | | (93) | 18 | 308 |
| Provision for commercial risks | 73 | 10 | (2) | (10) | (1) | 70 |
| Provision for risks and charges on investments and corporate-related transactions | 125 | 42 | (1) | (15) | (1) | 150 |
| Other provisions | 547 | 23 | (3) | (10) | 1 | 558 |
| **Total** | **1,490** | **313** | **(6)** | **(169)** | **32** | **1,660** |
| *Of which:* | | | | | | |
| *Non-current portion* | *692* | | | | | *735* |
| *Current portion* | *798* | | | | | *925* |

**Provision for taxation and tax risks** increased by 2 million euros compared to December 31, 2008. In particular, utilizations by the Parent, Telecom Italia, total 20 million euros mainly in connection with the settlement of disputes with the Revenue Agency, through the assessment with adhesion procedure, for the 2004 tax period relative to the deductibility of some TOP and Security costs from income taxes and VAT.

**Provision for restoration costs** refers to the charge for the estimated cost to dismantle tangible assets and restore the sites of Telecom Italia S.p.A. and the Brazil Business Unit. This provision increased by 34 million euros due to:

- release to income of the finance expenses to reflect the passage of time (19 million euros) and new accruals (21 million euros);
- the utilizations (10 million euros); and
- the exchange differences of the Brazil Business Unit (+18 million euros) and the effects on the change of the charges estimation (-14 million euros).

**Provision for legal disputes** increased mainly as a result of settlements of pending disputes by Telecom Italia S.p.A.

**Other provisions** increased by 11 million euros. Such item includes provisions due to the Telecom Italia Sparkle case: as of December 31, 2009 the related provision for risks and charges was equal to 507 million euros to face fiscal (VAT deducted and related interests and penalties) and legal risks and charges. For further details please see Note *Restatement as a result of errors and changes in accounting policies* .

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## NOTE 25 MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased by 455 million euros compared to December 31, 2008. The composition is as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Payables to social security agencies | 137 | 339 |
| Capital grants | 84 | 92 |
| Medium/long-term deferred income | 850 | 936 |
| Income tax payables(*) | | 162 |
| Other payables and liabilities | 13 | 10 |
| **Total** | **1,084** | **1,539** |

(*) Analyzed in the Note *Income tax payables* .

**Payables to social security agencies** refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| **Non-current payables** | | |
| Due from 2 to 5 years after the balance sheet date | 108 | 304 |
| Due beyond 5 years after the balance sheet date | 29 | 35 |
| | **137** | **339** |
| **Current payables** | **228** | **217** |
| **Total** | **365** | **556** |

With reference to the payable for pension fund integration under Law 58/1992, since 2009, the increase in short-term items (principal and interest) in comparison to medium/long-term items (only principal) is largely due to the extinguishment of payables relating to employees of the former Iritel, the last installment of which (in total expected to amount to approximately 110 million euros) will be paid in October 2010.

**Deferred income** includes 558 million euros (634 million euros at December 31, 2008) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone service and 283 million euros (285 million euros at December 31, 2008) for the deferral of revenues from the sale of transmission capacity, referring to future years.

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**NOTE 26 TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES**

Trade and miscellaneous payables and other current liabilities decreased by 420 million euros compared to December 31, 2008 and are composed of the following:

| | | As of December 31, | | | |
|---|---|---|---|---|---|
| | | 2009 | *Of which Financial Instruments* | 2008 | *Of which Financial Instruments* |
| | | (millions of euros) | | | |
| **Payables on construction work** | **(A)** | **24** | | **26** | |
| **Trade payables:** | | | | | |
| · Payables to suppliers | | 4,689 | *4,689* | 5,083 | *5,083* |
| · Payables to other telecommunications operators | | 1,326 | *1,326* | 1,514 | *1,514* |
| | **(B)** | **6,015** | ***6,015*** | **6,597** | ***6,597*** |
| **Tax payables** | **(C)** | **651** | | **582** | |
| **Miscellaneous payables and other current liabilities:** | | | | | |
| · Payables for employee compensation | | 440 | *440* | 423 | *423* |
| · Payables to social security agencies | | 421 | | 418 | |
| · Trade and miscellaneous deferred income | | 883 | | 906 | |
| · Advances received | | 26 | | 21 | |
| · Customer-related items | | 1,109 | *238* | 1,126 | *279* |
| · Payables for the TLC operating fee | | 30 | | 22 | |
| · Dividends approved, but yet to be paid to shareholders | | 22 | *22* | 22 | *22* |
| · Other current liabilities | | 326 | *235* | 314 | *219* |
| · Employee benefits (except for Employee severance indemnities) for current portion expected to be settled within 1 year | | 147 | | 184 | |
| · Provisions for current portion expected to be settled within 1 year | | 925 | | 798 | |
| | **(D)** | **4,329** | ***935*** | **4,234** | ***943*** |
| **Total** | **(A+B+C+D)** | **11,019** | ***6,950*** | **11,439** | ***7,540*** |

For further details about financial instruments please see Note *Supplementary disclosures on financial instruments* .

**Trade payables** (all due within 1 year) amounting to 6,015 million euros (6,597 million euros at December 31, 2008) mainly refer to Telecom Italia S.p.A. (4,161 million euros) and the companies in the Brazil Business Unit (1,219 million euros).

**Tax payables** particularly refer to the Parent for a total of 374 million euros and to companies in the Brazil Business Unit for 244 million euros.

**Other current liabilities** include a non-financial hedge derivative of the company Elettra S.p.A. for an amount of 1 million euros related to the hedge of rental fees for shipping and fuel purchase.

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**NOTE 27 INCOME TAX PAYABLES (CURRENT AND NON CURRENT)**

Income tax payables decreased by 1,139 million euros compared to December 31, 2008 and are composed as follows:

| | As of December 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (millions of euros) | |
| Medium/long term income tax payables (substitute tax) Current income tax payables | | **162** |
| Current income tax payables: | | |
| · Substitute tax | 165 | 215 |
| · Income tax expense | 118 | 1,045 |
| | **283** | **1,260** |
| **Total** | **283** | **1,422** |

These mainly refer to:

- payables for the third installment of the substitute tax for the tax realignment, carried out pursuant to Law 244 dated December 24, 2007 (165 million euros);
- TIM Brasil group payable (39 million euros);
- Ires payable generated by the Telecom Italia Group consolidated national tax return for the year 2009 (33 million euros);
- Irap payable by the Parent, Telecom Italia for the year 2009 (25 million euros);
- payable by the Parent, Telecom Italia, generated by the assessment with adhesion procedure agreed with the Revenue Agency, which became final (13 million euros).

The reduction from December 31, 2008 is for the most part due to the payment of the full amount of IRAP payable of the Parent, and of the full amount of IRES payable on Telecom Italia domestic tax unit for the year 2008; the payment of the second installment of the substitute tax in order to realign the lower tax basis to the higher book basis at December 31, 2007; the payments by the Parent, Telecom Italia, relating to the assessment with adhesion procedure agreed with the Revenue Agency at the end of 2008 to partly close the dispute for the period 2002/2006; the payment of the agreement reached with the Revenue Agency to close the tax dispute relating to the assessment of Blu, merged in Tim in 2002.

**NOTE 28 CONTINGENT LIABILITIES, OTHER INFORMATION, COMMITMENTS AND GUARANTEES**

The main legal, arbitration and tax proceedings in which companies of the Telecom Italia Group were involved at December 31, 2009 are described below; no mention is made of the disputes that, although referred to in the financial report for the year 2008, were settled in the year 2009 and whose effects on the financial statements were not material. Such information is disclosed, if any, in Note Provisions .

Furthermore, the disputes settled in 2009, which were mentioned in the 2008 consolidated financial statements, did not have a significant impact on the 2009 consolidated results.

**a 1) Contingent liabilities for which an adverse outcome is probable**

With respect to the legal, regulatory and tax proceedings, described below considered to have a probable adverse outcome, the Telecom Italia Group has made provisions in the amount of 660 million euros. Of this sum, 507 million euros refer to liabilities related to the Telecom Italia Sparkle case.

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**TELECOM ITALIA SPARKLE RELATIONSHIPS WITH I-GLOBE, PLANETARIUM, ACUMEN, ACCRUE TELEMEDIA AND DIADEM: THE ROME PROSECUTOR S INVESTIGATION.**

As set forth in Note *Restatement as a result of errors and changes in accounting policies* , reference to which is made for a description of the impacts on the consolidated financial statements, on February 23, 2010 the Finance Police, at the request of the Prosecutor s Office of Rome ( **Prosecutor** ), served Telecom Italia Sparkle with:

*a)* an order setting a fast track hearing procedure concerning the *request to apply the measure to prohibit Telecom Italia Sparkle from performing activities and to be replaced with a judicial administrator* pursuant to Legislative Decree No. 231/2001; and

*b)* a warrant to seize approximately 298 million euros as an interim measure.

The Prosecutor accused certain former directors and former and current employees of Telecom Italia Sparkle of cross border criminal conspiracy, tax evasion, international money laundering, reinvestment of profits from criminal activities and registering assets under false names. The charges of cross border criminal conspiracy, international money laundering and reinvestment of profits from criminal activities also are possible offenses that may entail administrative liability for a corporation under legislative Decree No. 231/2001.

In view of the hearing, Telecom Italia Sparkle filed a defense brief, to argue the lack of grounds for the application of the interim measure to appoint a judicial administrator. Moreover, in its discussions with the Prosecutor, the Company:

a) gave evidence of the replacement of its Executive Directors, of the suspension of the employees involved in the proceedings and still employed, as well as the termination of employment of the employees in custody;

b) filed a resolution of the Board of Directors on March 1, 2010 covering (i) the engagement of an independent professional to determine, among other things, whether the Company had adopted and implemented the organizational instruments under Legislative Decree No. 231/2001 and (ii) the steps taken by the company to carry out certain recommendations to further improve controls made by such independent professional;

c) filed with the Prosecutor a petition to cancel the request to place Telecom Italia Sparkle under a judicial administrator, together with, among others:

1. a guarantee in favor of the Judicial Authority for approximately 72 million euros. This action represents a guarantee for the Prosecutor, in case of an irrevocable ruling with an order to seize, pursuant to Legislative Decree No. 231/2001, of the amount that may be identified as profit of criminal activities alleged in relation to this case;

2. a guarantee in favor of the Tax Authority for approximately 123 million euros, representing the difference between the sum already seized to reflect VAT credits claimed for fiscal years 2005, 2006 and 2007 (approximately 298 million euros), and the maximum amount that could be due in relation to the definition of the company s tax position with respect to the above VAT, by virtue of a possible settlement with the Italian Revenue Agency. This guarantee, which is payable on demand, has been

issued with a view to reaching a settlement with the Italian Revenue Agency. The obligations related to any such settlement will be fulfilled after a petition for the release and ensuing payment, to the Italian Revenue Agency, of the sum of approximately 298 million euros, which was seized by order of the preliminary investigation judge ( GIP );

3. a preliminary overview of the activities carried out by the independent professional, prepared upon request of Telecom Italia Sparkle, with respect to the Telecom Italia Sparkle s corporate governance, organization and control, operations and the 231 Compliance Program .

In light of the above initiatives, on April 2, 2010, the Prosecutor withdrew the request submitted to the preliminary investigation judge to appoint a judicial administrator for Telecom Italia Sparkle. On April 6, the preliminary investigation judge issued an order to indicate that there was no case to answer with respect to the above request to appoint a judicial administrator for Telecom Italia Sparkle.

Considering the early stages of the proceedings, the complexity of the case and the substantial quantity of documents collected by the Prosecutor over many years by virtue of its own power and authority which documents are still under review the Company cannot yet determine the final outcome of the proceedings. However, while an unfavorable outcome cannot be ruled out in principle, Telecom Italia Sparkle will pursue its defense with the utmost vigor, to prove its innocence against the charges brought by the Prosecutor. As to the effects determined by an unfavorable ruling for the proceedings related to Legislative Decree No. 231/2001, in addition to administrative fines (the amount of which would be low) and interdictive measures, penalties would include the seizure of the profits of criminal activities. According to the case made by the Prosecutor, and without considering the effect of the Company s defense arguments, such profits would amount to 72 million euros (a sum that is already covered by the above guarantee).

With respect to the tax risk associated with the alleged events, it is noted that reference was made in the 2007 consolidated financial statements to an investigation under way on two suppliers in connection with an alleged VAT fraud. At that time, based on technical explanations provided by Telecom Italia Sparkle s management and after it had obtained positive opinions from external tax consultants, Telecom Italia S.p.A. concluded that it had operated in accordance with the law and that, therefore, there were no contingent tax liabilities.

The information and documents available in the order delivered to the Company in February 2010, following the investigative activities of the Prosecutor by virtue of its own powers and authority, brought to light additional facts, thus making it possible to have a more thorough knowledge of the events analyzed in 2007, due to information that was not known in 2007.

Thus, it is likely that the Prosecutor s case will focus on improperly claimed VAT credits in transactions with the above suppliers for 2005, 2006 and 2007. Accordingly, negotiations have commenced with the Italian Revenue Agency to settle the matter, with an estimated settlement amount inclusive of taxes, interest and penalties of approximately 421 million euros.

With respect to the VAT fraud, there is a risk that the Italian Revenue Agency might also claim back IRES and IRAP taxes. Based on an opinion of tax professionals, this risk is only possible.

Following further reviews of Telecom Italia Sparkle s 2005-2009 fiscal years, additional provisions for approximately 14 million euros were made to cover the tax risks deemed likely in connection with restated transactions.

**OTHER TAX DISPUTES**

In February and March 2009 following the tax audits conducted by the Finance Police, the main findings of which have already been settled with the Italian Revenue Agency, as indicated in the 2008 Annual Report the Company received notices disputing the income tax and VAT deductibility of certain TOP and Security costs for fiscal years 2002 and from 2004 to 2007.

To this end, the Company has commenced a procedure with the Italian Revenue Agency for a pre-litigation settlement agreement. In December 2009 all claims related to fiscal year 2004 were settled.

**FASTWEB**

Proceedings initiated by Fastweb in October 2007 are still pending before the Court of Appeal of Milan, for the alleged abusive win-back strategy adopted by Telecom Italia in the market for residential and non-residential fixed-line voice telephony services and broadband internet access services. Plaintiff is seeking compensation for approximately 1,070 million euros.

Fastweb s lawsuit is based on the order issued by the Court of Appeal of Milan on May 16, 2006, following the urgent motion for relief filed by Fastweb, requiring Telecom Italia to cease and desist from continuing its alleged abusive conduct.

Telecom Italia filed a formal challenge against Fastweb s claims.

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**BT ITALIA**

In October 2009 BT Italia filed a lawsuit over Telecom Italia s alleged abuse of dominant position in the business segment of the wholesale fixed-to-mobile termination market. Plaintiff seeks compensation of 419 million euros.

BT Italia, basing its claim on the findings of proceedings AGCM c.d. A/357 by the national telecommunications Authority, attributed the alleged loss suffered (i) to the difference between the wholesale termination prices that BT Italia paid in accordance with the regulated maximum prices on Telecom Italia s mobile network and the lower price extended by Telecom Italia s commercial retail department to its customers; (ll) to the loss of earnings due to the application to its customers of below-cost prices for the same termination services, so as to maintain its competitiveness in the market; and (iii) to the loss of market share.

Following Telecom Italia s filing of a formal challenge in March 2010, the matter was settled out of court.

**NOTICE OF COMMENCEMENT OF PROCEEDINGS RECEIVED BY TELECOM ITALIA S.P.A. FOR ADMINISTRATIVE OFFENSES UNDER LEGISLATIVE DECREE 231/2001**

In December 2008 Telecom Italia received a notice of commencement of proceedings for administrative offenses under articles 21 and 25, paragraphs 2 and 4 of legislative decree 231/2001, following the investigation, by the Public Prosecutor of Milan, of events involving former Company employees and consultants charged with a series of crimes, including among others the offense, under legislative decree 231/2001, of bribing public officials to obtain information from confidential archives.

With the preliminary hearing pending, Telecom Italia submitted a request for the so-called sanction upon request (i.e. plea bargaining ) pursuant to article 63 of legislative decree 231/2001, after, in its capacity as employer, it provided compensation to the employees and former employees whose personal information had been collected illegally and after it had settled with the government authorities that had filed a civil lawsuit against the Company all claims linked to the events covered by the penal proceedings.

The Prosecutor s Office in Milan gave its formal consent to the procedure and now the request is pending before the Court.

Once it is handed down, the plea bargaining judgment will allow Telecom Italia to close the penal case against it. However, the Company s civil responsibility pursuant to article 2049 of the Italian civil code is unchanged, due to the activities of certain former employees. With respect to the latter Telecom Italia considers possible the risk of any contingent liability arising from requests for compensation.

With reference to the losses suffered, the Company together with Telecom Latam and Telecom Italia Audit and Compliance Services filed a civil case against the former employees and third parties and has requested and obtained, among other things, the seizure of one of the co-defendants

assets worth over 15 million euros. The Company has also appointed external consultants to determine on the basis of known events and events that are emerging and will emerge during the proceedings and elsewhere whether there are the conditions to undertake action to seek compensation for any loss suffered.

**DISPUTES CONCERNING LICENSE FEES FOR 1994-1998**

Proceedings are still pending in relation to the request to the Ministry of Communications to reimburse Telecom Italia and TIM for the license fees paid for 1994-1998.

**a 2) Contingent liabilities for which an adverse outcome is possible**

**VODAFONE**

Proceedings are still under way before the Court of Appeal of Milan in the action brought by Vodafone in July 2006, seeking compensation for losses set originally at 525 million euros and subsequently raised to 759 million euros. Plaintiff maintains that Telecom Italia engaged in abusive conduct, due to its dominant position in fixed telephony, to strengthen its role in the contiguous mobile telephony market, with exclusionary effects to the detriment of its competitor. According to Vodafone, Telecom Italia s alleged abusive conduct involved residential and business customers and was illegal also because it broke the law on personal data protection.

Telecom Italia filed a formal challenge against Vodafone s allegations and the grounds for its claims.

**EUTELIA E VOICEPLUS**

In June 2009, Eutelia and Voiceplus filed a complaint alleging Telecom Italia s abuse of dominant position in the premium service market (involving the offering to the public of services through so-called Non Geographical Numbers). Plaintiffs seek compensation of approximately 730 million euros for losses suffered.

These proceedings were initiated as plaintiffs sought relief before the Court of Appeal of Milan, which ordered Telecom Italia to cease and desist from certain alleged abuses of dominant position perpetrated in the management of business relationships with Eutelia and Voiceplus. Specifically, the matter refers to Telecom Italia s regulatory obligation to collect payments, on behalf of these OLOs, from end users of non-geographical number services.

Telecom Italia appeared to ask the Court to dismiss plaintiffs claims.

**TELEUNIT**

On October 29, 2009 Teleunit filed a complaint before the Court of Appeal of Milan alleging Telecom Italia s abuse of dominant position in the premium service market (involving the offering to the public of services through so-called Non Geographical Numbers and Telecom Italia s regulatory obligation to collect payments, on behalf of these OLOs, from end users). Plaintiff seeks compensation of approximately 362 million euros for losses suffered.

Telecom Italia filed a formal challenge to dispute plaintiff s claims.

**ARGENTINA**

Telecom Italia S.p.A. and Telecom Italia International N.V. are involved, in their capacity as shareholders of Sofora Telecomunicaciones SA ( **Sofora** ), in a large number of judicial and administrative proceedings initiated by W de Argentina Inversiones SL ( **Los W** ), partners in Sofora, by SECOM (local telecommunication authority), CNDC (local Antitrust authority) and by the *Secretaría de Comercio Interior* (a body of the Ministry of the Economy).

Specifically, Los W brought several judicial cases against Telecom Italia S.p.A. and Telecom Italia International N.V. in order to declare null and void the call options held by Telecom Italia International on the shares representing the 50% of the equity interest held in Sofora through a Call Option Agreement signed in 2003 and to have the court acknowledge the existence of a conflict of interests for the companies of the Telecom Italia Group and the directors of the Telecom Argentina group designated on indication of the Telecom Italia Group. On the other hand, the local government authorities, in light of alleged distortive effects on competition in the Argentine market deriving from the so-called Telco Transaction, adopted a number of resolutions aimed, among other things, to suspend the exercise of *derechos politicos* ( political rights ) by the companies of the Telecom Italia Group and their representatives in the Telecom Argentina group and, most of all, to have the Telecom Italia Group sell its equity interest in Sofora, setting the terms and indicating the possibility of investigative actions and sanctions to ensure completion of the divestment.

Telecom Italia S.p.A. and Telecom Italia International N.V. challenged judicially Los W s claims and the resolutions adopted by the local authorities, each within its purview, against the Group companies, obtaining, in general, favorable rulings in the cases where the competent Courts made a decision. In particular, attention is called, for its importance, to the ruling issued on February 1, 2010 (see below) by the Criminal Economic Court of Appeal of Buenos Aires declared null and void Resolution 483/09 dated August 25, 2009, which had ordered Telecom Italia S.p.A. and Telecom Italia International N.V. to fully divest their interests in Sofora, including the call options, within one year and authorized the CNDC to set out within 60 days the terms and procedures for the divestment process.

At the present time, no administrative or judicial act, including measures by SECOM and CNDC, the details of which are set out below, has been taken to revoke the validity of the Call Option Agreement, or the ownership of the relative option rights held by the Group, the exercise of such option rights, whose carrying value is 130 million euros at December 31, 2009, having been merely suspended.

Details of the disputes and the legal proceedings, as well as the current status for each of them, are provided below.

* * *

On June 27, 2008 Los W initiated proceedings against Telecom Italia International before the Commercial Court of Buenos Aires for the call option agreement signed in 2003 by Telecom Italia International and Los W (Call Option Agreement) to be declared null and void due to an alleged subsequent conflict with Argentine corporate law. The existence of the dispute was recorded in Sofora s shareholder register. Telecom Italia International filed its own defence brief requesting the Court to reject the counterparty s claim as unfounded. The proceeding is still in its pre-trial phase.

* * *

On October 6, 2008 Los W and its shareholders filed a lawsuit against Telecom Italia and Telecom Italia International, as well as certain directors of the Telecom Argentina group companies designated on indication of Telecom Italia, before the Commercial Court of Buenos Aires. The plaintiffs requested that the Court declare the existence of an alleged permanent conflict of interest affecting Telecom Italia, Telecom Italia International and the directors of the Telecom Argentina group designated on indication of Telecom Italia, and determined by the alleged de facto control of Telecom Italia and consequently of Telecom Argentina by Telefónica S.A., (which controls also Telecom Argentina s main competitor, Telefónica de Argentina S.A.), following the Telco S.p.A. s acquisition of 100% of Olimpia S.p.A. share capital ( **Telco Transaction** ).

In December 2008, Telecom Italia and Telecom Italia International filed their defence brief requesting that plaintiff s arguments and claims be rejected.

* * *

On April 15, 2009 the Administrative Court of Appeal of Buenos Aires served Telecom Italia and Telecom Italia International with a precautionary measure granted to the Dracma Group and Los W. This measure suspended Telecom Italia International s rights under the Call Option Agreement, as well as prevented any act of disposal thereunder (in particular the assignment of the agreement to third parties), until SECOM (the Argentine telecommunication authority) rules on the Telco Transaction or until the Court rules on the merits of the action that the Dracma Group and Los W will have to bring to obtain a declaratory judgment confirming the validity of the obligations set out by SECOM Note 1004/08 (see below).

On August 5, 2009 Telecom Italia and Telecom Italia International filed an extraordinary appeal (*Recurso extraordinario*) before the Argentine Supreme Court against such precautionary measure. As the submission of such appeal to the Supreme Court was rejected by the Administrative Court, on September 30, 2009 Telecom Italia and Telecom Italia International filed a direct appeal (*Recurso de queja*) with the Supreme Court.

* * *

On August 31, 2009 the Administrative Trial Court of Buenos Aires served Telecom Italia, Telecom Italia International and the companies of the Telecom Argentina group with two preliminary rulings issued on August 26 and 28 *inaudita altra parte* upon request of Los W, ordering:

(i) to maintain the *status quo* existing prior to the Telco Transaction and imposing on Telecom Italia and Telecom Italia International, as parties to the shareholders agreement with Los W (the *Shareholders Agreement* ) and the Call Option Agreement, to refrain from taking any action under these agreements, including the exercise, the assignment or disposal of any right under the Call Option Agreement;

(ii) to suspend the exercise of the *derechos politicos* of Telecom Italia and Telecom Italia International under the law, Bylaws or Shareholders Agreements in the companies of the Telecom Argentina group;

(iii) the suspension from their office of the directors of the companies of the Telecom Argentina group designated on indication of Telecom Italia and/or Telecom Italia International; and

(iv) that such directors shall not be calculated in the quorum of the meetings of the boards of directors of the companies belonging to the Telecom Argentina group.

Telecom Italia and Telecom Italia International requested and obtained from the Civil and Commercial Court of Appeal the precautionary suspension of several meetings of the boards of directors of the companies of the Telecom Argentina group, some of which had been unlawfully convened by Los W. Moreover, on September 30, 2009 Telecom Italia and Telecom Italia International challenged the above mentioned two preliminary rulings, which the Administrative Trial Court ratified on the same date upon Los W s request.

On November 6, 2009 the Administrative Court of Appeal of Buenos Aires rejected the appeal filed by Telecom Italia and Telecom Italia International and, on November 24, 2009 both companies filed an extraordinary appeal (*Recurso extraordinario*) with the Argentine Supreme Court against such decision. The decision is pending.

* * *

On October 6, 2009 Telecom Italia and Telecom Italia International filed an appeal with the Argentine Supreme Court, seeking a resolution of the conflict originated by the granting of the aforementioned preliminary measures and those issued by the Civil and Commercial Court of Appeal which, among others, suspend the effects of Resolution 44/09 of CNDC (see below), so that the latter shall prevail as a result of the exclusive competence of the Court of Appeal.

On November 11, 2009 the Supreme Court requested from each competent Court the files relating to the above captioned administrative precautionary proceedings, as well as those connected to the Dracma proceedings (see above), and subsequently forwarded such Court files to the Attorney General in order to obtain an advisory opinion.

* * *

On March 9, 2010, the Administrative Trial Court of Buenos Aires, at the request of Los W, served Telecom Italia, Telecom Italia International and the companies of the Telecom Argentina group with an order which, among others, ratified the rulings issued on August 26 and 28, 2009 by the same Trial Court (see *supra*) and ordered their enforcement. On such basis the corporate books of Nortel, Telecom Argentina, Telecom Personal and Sofora were seized by a judicial officer and placed in the custody of the vice chairmen of each company. Telecom Italia and Telecom Italia International challenged the legality of such order and its consistency with decisions issued by the Civil and Commercial Court of Appeals of Buenos Aires.

**ARGENTINA SECOM**

On June 26, 2008 SECOM issued Note 1004/08, ordering Telecom Italia and Telecom Italia International to request SECOM s prior authorisation before signing any agreement or performing any act that would result in:

(i) any increase of their direct or indirect equity interests in the companies of the Telecom Argentina group;

(ii) the assignment to third parties of the rights of Telecom Italia and Telecom Italia International in respect of Sofora shares or rights related to the call options on Sofora shares; and

(iii) the performance of acts of disposition of such rights that would distort competition and undermine the general economic interest.

SECOM s order was based on the fact that Telefónica S.A. would have purportedly become a substantial shareholder in Telecom Italia and consequently in Telecom Argentina with the risk of distortive effects for competition in the telecommunication market.

On August 11, 2008 Telecom Italia and Telecom Italia International filed a *Recurso jerarquico* before the *Ministerio de Planificación Federal, Inversión Pública y Servicios* against Note 1004/08, which is still pending.

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On December 30, 2008 SECOM issued Note 2573/08 whereby, among others, Telecom Italia and Telecom Italia International were ordered to refrain from carrying out any legal act that might entail a change in Sofora s share capital or from transferring the rights related to the call options held by Telecom Italia International until SECOM rules on the Telco Transaction.

On January 26, 2009 Telecom Italia and Telecom Italia International filed a *Recurso jerarquico* against such Note, with the Ministerio de Planificación Federal, Inversión Pública y Servicios, which is still pending.

**ARGENTINA CNDC**

On January 6, 2009, the CNDC (the Argentine antitrust authority) notified Telecom Italia and Telecom Italia International of Resolution 123/08, which prohibits the Telecom Italia Group from performing any action related to the exercise of the call options or the transfer of such options, until the CNDC rules on these call options in light of the Telco Transaction.

Telecom Italia and Telecom Italia International challenged the Resolution and filed an appeal seeking its reversal. Subsequently, on January 28, 2009 (with Resolution 6/09) the CNDC refused to transmit the files related to the appeal to the Court having jurisdiction over it, declaring the absence of a prejudice to Telecom Italia and Telecom Italia International, as Resolution 123/08 had simply suspended the running of the terms for the exercise of the call options by Telecom Italia International, without undermining the company s contractual rights.

Telecom Italia and Telecom Italia International considered Resolution 6/09 to be illegitimate and asked the Court to exercise its jurisdiction and examine the appeal against Resolution 123/08.

On June 25, 2009 the Civil and Commercial Court of Appeal of Buenos Aires affirmed its jurisdiction over the appeal and the case is still pending.

* * *

On January 9, 2009 the CNDC notified Telecom Italia and Telecom Italia International of Resolution 4/09, which requires among other things that Pirelli & Co. S.p.A., Sintonia S.p.A. and Sintonia S.A. (as sellers) and Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Sintonia S.A. and Mediobanca S.p.A. (as buyers of the entire share capital of Olimpia) to notify the Telco Transaction as, according to a preliminary analysis of the Authority, this would purportedly result in an economic concentration under the Argentine antitrust law.

Moreover, the foregoing resolution ordered the buyers to refrain from exercising their *derechos politicos* as direct or indirect shareholders of Telecom Italia, Telco, Olimpia, Telecom Italia lnternational, Sofora, Nortel and Telecom Argentina and their subsidiaries, including such rights

deriving from shareholders agreements, until the CNDC adopts a decision on the Telco Transaction. According to a qualified opinion, this restriction should be interpreted as limited to the Argentine market. Moreover, with the same resolution, the CNDC ordered the directors and statutory auditors designated at the indication of Telecom Italia in the companies of the Telecom Argentina group to refrain from taking any action that would result in a violation of this Resolution.

* * *

On April 3, 2009 the CNDC issued Resolution 44/09, requiring:

(i) that Telecom Italia, Telecom Italia International, the directors, officers and representatives of Telecom Italia and Telecom Italia International, and their direct and indirect shareholders, as well as the directors and statutory auditors designated at the indication of Telecom Italia and Telecom Italia International in the companies of the Telecom Argentina group should have refrained and should refrain from adopting decisions or giving instructions that entailed or would entail in the future, directly or indirectly, the exercise of *derechos politicos* (including such rights deriving from shareholders agreements in the companies of the Telecom Argentina group); and

(ii) the reversal, as of January 9, 2009, of decisions adopted by corporate bodies or directors of the Telecom Argentina group which implied the exercise of such *derechos politicos* .

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The Telecom Italia Group filed an appeal against this decision before the Civil and Commercial Court of Appeal of Buenos Aires, which has ordered that the shareholder meetings of Nortel and Telecom Argentina be suspended and that the boards of directors of Sofora and Nortel refrain from discussing matters to be submitted to the shareholder meetings of the Telecom Argentina group. On July 27, 2009 the same Court granted to Telecom Italia Group the request for precautionary suspension of the effects of Resolution 44/09.

The appeal against the petition to reverse the ruling of July 27, 2009 filed by the *Ministerio de Economía y Finanzas Públicas* is pending.

* * *

On May 26, 2009 the CNDC issued Resolution 64/09, ordering:

(i) the re-establishment of the *Consejo de Direccion* of Telecom Argentina which had previously been dissolved;

(ii) the unwinding of certain organizational changes in Telecom Argentina;

(iii) the grant of a term of five-days for certain directors of Telecom Argentina to submit evidence against their alleged violation of the CNDC orders on the suspension of *derechos politicos* .

Telecom Italia, Telecom Italia International, the companies of the Telecom Argentina group and its directors challenged this Resolution.

On June 10, 2009 the Civil and Commercial Court of Appeal of Buenos Aires ordered the suspension in the meeting of the board of directors of Telecom Argentina scheduled on June 12, 2009, of the discussion of the item on the agenda related to the implementation of the provisions set forth by Resolution 64/09.

On October 22, 2009 the Criminal Economic Court of Appeal of Buenos Aires, to which the CNDC had transmitted the files related to the appeal submitted by Telecom Italia and Telecom Italia International against Resolution 64/09, granted such appeal and declared the Resolution null and void.

On November 23, 2009 Telecom Italia, Telecom Italia International, the companies of the Telecom Argentina group and its directors were served with an extraordinary appeal *( Recurso Extraordinario )* filed by CNDC with the Supreme Court against the above mentioned nullity decision.

On December 17, 2009 the Criminal Economic Court of Appeal of Buenos Aires admitted the extraordinary appeal to the Supreme Court filed by CNDC against the above mentioned decision on the nullity of Resolution 64/09. The proceeding is pending.

* * *

In the framework of the antitrust proceeding related to the Telco Transaction, the SECOM rendered an opinion to the CNDC on July 23, 2009 which stated that the Telco Transaction would result in violation of several telecommunication rules, and thus recommended the CNDC not approve it.

* * *

On August 25, 2009 the *Secretária de Comercio Interior* (SCI) adopted Resolution 483/09 whereby, as recommended by CNDC s *Dictamen* 744/09 attached to the Resolution:

(i) it conditions the approval of the Telco Transaction to the full divestment of Telecom Italia s direct and indirect participation in Sofora, as well as divestment of all Telecom Italia s rights in the Telecom Argentina group, including the call options under the Call Option Agreement;

(ii) it authorizes the CNDC to establish, within 60 days, the terms and conditions of the divestment process, which shall take place in any case within one year;

(iii) it requires, within 60 days, the CNDC to rule on whether fines should be applied in relation to the delay in notifying the alleged concentration that took place through the Telco Transaction, their amount and on whom they should be inflicted.

On September 16, 2009 Telecom Italia and Telecom Italia International challenged Resolution 483/09 before the CNDC, requesting its suspension and annulment and requesting also that the proceeding be transmitted to the Civil and Commercial Court of Appeal of Buenos Aires, in front of which both companies had initiated a proceeding (*accion autosatisfactiva*) to obtain urgent relief in order to suspend the effects of the said Resolution.

On October 9, 2009, the CNDC accepted the request to transfer the proceeding to the Criminal Economic Court of Appeal.

On October 16, 2009 the Civil and Commercial Court of Appeal stayed the proceeding until the Argentine Supreme Court resolved the conflict of jurisdiction between the Civil and Commercial Court and the Criminal Economic Court of Appeal.

On November 19, 2009 the SCI extended for a further 60 days the term allowed to CNDC to set forth the terms and conditions of the divestiture of the participation held in Sofora as well as all the rights in the Telecom Argentina group including the call options. Such extension applied also to the issuance by CNDC of the decision on possible sanctions to be imposed in relation to the delay in notifying the act of concentration allegedly implemented through the Telco Transaction.

On December 23, 2009, however, the Criminal Economic Court of Appeal confirmed its intention to rule on the appeal.

On December 30, 2009 the Civil and Commercial Court of Appeal of Buenos Aires declared its competence to hear the appeal against SCI Resolution 483/09, inviting the Criminal Economic Court of Appeal before which such appeal is currently pending to refrain from deciding on the matter. On February 1, 2010, the Criminal Economic Court of Appeal declared Resolution SCI n.483/09 null and void.

As per Resolution 82/2010 of the Argentine *Ministerio de Economía y Finanzas Públicas* and Resolution 14/2010 of the *Secretaría de Política Económica* (see below), SCI Resolution 483/09 was abrogated , and the Government expressly relinquished its right to appeal the decision on the annulment of such Resolution.

* * *

In application of what was provided for in SCI Resolution 483/09, and before its annulment, on January 6, 2010 SCI issued Resolutions 2/10 and 3/10 whereby, following CNDC recommendations (*Dictamen* 775 and Resolution 1/10), it respectively (i) imposed fines on the parties of the Telco Transaction for the delay in notifying to the Argentine Antitrust authority the alleged economic concentration that took place through the Telco Transaction and (ii) provided terms and conditions for the full divestment of Telecom Italia s direct and indirect participation in Sofora, as well as divestment of all Telecom Italia s rights in the Telecom Argentina group, including the call options under the Call Option Agreement. In such respect SCI has mainly:

(i) established a timeline for the divestiture procedure that provides for a first phase (which was to end on February 25, 2010) to procure the signing of the agreements for the disposal to third parties of the investment held in Sofora together with the call options, and for a subsequent period of time (until August 25, 2010) for the completion of the transaction which will be subject to the supervision and prior authorization of CNDC;

(ii) imposed on the addressees of the Resolution the obligation to cooperate with and to inform SCI/CNDC on the divestment process;

(iii) granted Argentine regulatory authorities which ultimately are in charge of the approval of the divestment procedure, with a supervisory role and wide investigation, intervention and sanction powers in order to secure the completion of the divestiture.

On January 13, 2010 Telecom Italia and Telecom Italia International filed a *Recurso de apelación* before CNDC seeking the suspension and reversal of Resolutions SCI 3/10 and CNDC 1/10. Such *Recurso* was preliminarily granted by CNDC, which ordered its transmission to the competent court.

On January 13, 2010, both companies also filed a motion before the Civil and Commercial Court of Appeal of Buenos Aires seeking the suspension of the aforementioned SCI/CNDC Resolutions, pending a decision on the validity of the restrictions imposed by SCI/CNDC. This motion was granted on January 15, 2010, suspending the effects of the aforementioned Resolutions with an interim measure which was appealed by CNDC, both through a motion for reconsideration, eventually rejected, and a *Recurso extraordinario* before the Supreme Court.

As per Resolution 82/10 of the Argentine *Ministerio de Economía y Finanzas Públicas* and Resolution 14/10 of the *Secretaría de Política Económica* (see below), SCI Resolution 3/10 was abrogated .

* * *

On February 22, 2010 the Argentine Ministry of Economy and Public Finance issued Resolution 82/10 by which it appointed the *Secretaría de Política Económica* (SPE, a subdivision of the Ministry) in order to take all the measures in the context of the antitrust proceeding, following the indications of the Criminal Economic Court of Appeal decision dated February 1, 2010 which annulled SCI Resolution 483/09 (see *supra*) and in compliance with the local antitrust law.

Subsequently, with Resolution 14/10 dated February 22, 2010, the SPE has, *inter alia* (i) confirmed that the Telco Transaction is subject to notification under antitrust law, (ii) abrogated SCI Resolutions 483/09 and 3/10 and (iii) instructed the CNDC to take all measures to adapt the Telco antitrust proceeding following the decision set out by the Criminal Economic Court of Appeal decision.

Following the above, on February 25, 2010 CNDC issued Resolution 30/10 which *inter alia* granted Telecom Italia and Telecom Italia International 15 days to access the file of the antitrust proceeding and submit their comments.

On March, 1 2010 Telecom Italia and Telecom Italia International appealed Resolutions 82/10, 14/10 and 30/10 seeking their nullity and suspension. The same companies also requested the removal of the officers of the various bodies who participated in the issuance of the above mentioned Resolutions.

**SEC PROCEDURE**

On December 17, 2009, the U.S. Securities and Exchange Commission requested that Telecom Italia provide, on a voluntary basis, documents related to the potential sale to third parties of the participation of the Telecom Italia group in Telecom Argentina. Telecom Italia is cooperating with the voluntary request.

**BOLIVIA ENTEL**

Following a series of measures adopted since March 2007, on May 1, 2008 the Bolivian government issued a Supreme Decree to nationalise the participation acquired in 1995 by the Telecom Italia Group (through the Dutch vehicle ETI) in Entel S.A. The Decree set out a 60-day period to determine a price for the nationalised shares, after deducting all Entel s recorded and contingent liabilities. To date the Bolivian Government has not set a price for or provided any compensation for the expropriation.

In October, 2007, after failing to settle the matter amicably, ETI filed for arbitration with the International Centre for Settlement of Investment Disputes (ICSID), a World Bank institution located in Washington D.C., on the basis of the violation of the Bilateral Treaty for the Promotion and Protection of Investments between Bolivia and The Netherlands and seeking compensation for damages for the losses incurred as a result of the measures adopted by the Bolivian government; on October 31, 2007 ICSID registered the request.

Bolivia filed a motion to question the jurisdiction of the Arbitration Court over the case, after having denounced the ICSID convention after ETI submitted its claim.

Following the motion questioning ICSID s jurisdiction, on October 14, 2009, ETI notified the Bolivian government with the request for a new arbitration by which it commenced a so-called ad hoc arbitration proceedings, on the basis of the Bilateral Treaty for the Promotion and Protection of Investments between Bolivia and The Netherlands, to determine whether the measures taken by the Bolivian government constituted a violation of such Treaty and to seek compensation for the damages suffered.

On October 21, 2009 ETI and Bolivia reached an agreement to terminate the ICSID arbitration proceedings, appointing a new Arbitration Panel composed of the same arbitrators as those of the ICSID Arbitration Court.

The ad hoc proceedings are continuing under the terms and conditions set forth by the established Arbitration Panel.

**GERMANY AOL ARBITRATION**

In November 2008 AOL LLC and AOL Europe Sàrl ( **AOL** ) notified Telecom Italia Deutschland Holding GmbH ( **TIDE** ) and Telecom Italia that they had initiated arbitration proceedings before the Paris International Chamber of Commerce ( **ICC** ) in relation to the contract for TIDE s acquisition of the broadband assets of the AOL Time Warner Group in Germany, signed in September 2006 and completed in February 2007.

The aim of the request for arbitration is to obtain:

(i) a ruling that the contracts for the supply of services to a specific category of customers (known as Bring-Your-Own-Access or BYOA) are not to be considered sold to Telecom Italia and TIDE;

(ii) an order for defendants to cause HanseNet (the German company controlled by TIDE that currently manages the services provided to BYOA customers) to return to AOL the amount invoiced to customers for the above services (approximately 2 million euros).

In February 2009, Telecom Italia and TIDE filed their own briefs and cross-claims, requesting AOL after determining that the BYOA customers had to be sold by AOL to transfer them, where this is still possible, and in any case to disgorge the revenues generated from these customers collected by AOL or provide compensation for the loss suffered.

The arbitration proceedings are under way in their pre-trial phase.

**GREECE DELAN**

In 2005, Tim International (merged into Telecom Italia International as of June 27, 2008) sold the entirety of its interest held in Tim Hellas pursuant to a Stock Purchase Agreement executed on April 3, in 2005 (SPA). According to said agreement, Tim International agreed to indemnify the buyer against certain potential liabilities existing as of the date of the execution of the SPA, among which an arbitration between Tim Hellas and Delan Celular Services S.A. (Delan) started in 1998.

In July 2006, Tim Hellas (which changed its corporate name into Wind Hellas) notified Tim International that the Greek Arbitrational Panel had issued a decision on the case in favor of Delan and awarded damages against Wind Hellas for a total amount of 52 million euros including interest. Wind Hellas challenged this decision, seeking its nullity, before the Athens Court of Appeal and, in October 2007, informed Tim International that the Athens Court of Appeal had quashed the award of the Arbitration panel.

In March 2008 Wind Hellas informed Tim International that Delan (now Alpha Digital Television) had challenged the decision of the Court of appeal before the Greek Supreme Court, claiming the failure to perform the notification. Subsequently Tim International, in accordance with the provisions of the SPA, decided to take over the defense of Wind Hellas before the Supreme Court.

In September 2008, the Supreme Court issued a decision rejecting the challenge of Delan and confirming the decision of the Athens Court of Appeal.

In March 2009, Wind Hellas informed that Carothers Ltd, the successor of Alpha Digital (which in turn was successor of Delan), communicated to Wind Hellas and the arbitrators of its intention to continue with the arbitration in order to obtain a new award from the same arbitration panel.

Subsequently, in October 2009 Wind Hellas has informed that Carothers had initiated legal proceedings against it, requesting the payment of about 270 million euros.

In December 2009, Wind Hellas served Telecom Italia International with an impleader for compulsory intervention in connection with the proceeding initiated by Carothers, by virtue of the indemnification obligation provided for in the SPA.

In January 2010, Wind Hellas served Telecom Italia International with a further impleader (informing also Telecom Italia) in connection with a motion filed by Carothers seeking a provisional measure for an attachment on Wind Hellas assets for an amount of about 360 million euros. Afterwards, Telecom Italia and Telecom Italia International were served by Wind Hellas with a notification to attend a hearing in connection with a new preliminary proceeding commenced by Carothers against Wind Hellas, having the same object as the one described above, although before a different Court.

Telecom Italia Group is evaluating any action to be taken in order to protect its interests in the above mentioned actions.

**OTHER LIABILITIES RELATED TO SALE OF ASSETS AND COMPANIES**

In connection with agreements signed also in the early months of 2010 for the sale of assets and companies, the Telecom Italia Group indemnified buyers against liabilities arising mainly from legal, tax, pension and labor matters for amounts equal to a certain percentage of the selling price.

Given the foregoing contingent liabilities, amounting to approximately 1,200 million euros, provisions were made for 140 million euros for cases where payment is deemed likely.

Furthermore, the Telecom Italia Group provided other indemnifications without a limit for the potential payments involved. Currently, the sums that the Telecom Italia Group might be called upon to pay in future with respect to these indemnification provisions cannot be estimated.

**b) Other information**

**LICENSE FEE FOR 1998**

In March 2009 Telecom Italia filed an appeal with the Council of State against a ruling by the Lazio Regional Administrative Court (TAR) which rejected the Telecom Italia Group s request to be repaid the 1998 license fee despite the favorable decision of the EU Court of Justice of February 23, 2008 on the preliminary ruling question raised by the Lazio Court.

In particular, in 2003 Telecom Italia and TIM had brought separate actions before the Lazio TAR to determine their right to obtain repayment of the license fee for 1998 (equal to 386 million euros for Telecom Italia and 143 million euros for TIM, plus interest) in light of the conflict between Directive 97/13/EC on a common framework for general authorizations and individual licenses in the field of telecommunications services and the Italian law that had extended to 1998 the obligation for telecommunications operators to pay the annual license fee.

The Council of State rejected the appeal to overturn the decision of the Lazio TAR, with ruling no. 7506/09.

The Company is considering other initiatives to protect its rights.

**MOBILE TELEPHONY: DEALER INVESTIGATION**

The activities started in 2008 to check prepaid sim cards incorrectly associated with an ID card continued in 2009. This process led, in 2009 alone, to the termination of roughly 2.9 million cards while over 760,000 cards have been correctly associated with an ID card.

During the year the processes and procedures to activate prepaid cards were reviewed. In particular, to ensure that newly activated sim cards are matched to proper ID cards, a new software application has been implemented which enables the sim card only when the system ascertains the presence of an ID card. The activity to control the proper implementation of the process to activate prepaid cards has been optimized through the following

initiatives: a) transfer of the Commercial Compliance function from the sales structure to the Group Compliance function; b) full review of the specific system to control the activity through the definition of first-level controls by the Consumer Department and second-level controls by the Commercial Compliance function; c) issue of new procedures governing in detail the activities to check whether the documentation is available in the system, the quality of the documentation filed, the raising of the maximum number of sim cards that a customer can require, multiple registrations of sim cards within the maximum number that a customer can require. Closer scrutiny has been implemented on the quality of the documents filed and new procedural and IT solutions are being considered to optimize the qualitative level of the documents during the application phase.

Furthermore, for the protection of customers, a new software application has been developed which sends a welcome sms on all the lines registered in the customer s name as soon as a new line is activated under the customer s name. This will put customers in a position to report immediately any improper use of their personal data.

**c) Commitments and guarantees**

Sureties were provided for a total of 197 million euros, net of back-to-back guarantees received for 158 million euros by Telecom Italia on behalf of associated companies (16 million euros) and other third parties for medium/long-term financial transactions.

Furthermore, the equity interest in Tiglio I (47.80%) was pledged with the lenders of this associated company.

Purchase and sale commitments outstanding at December 31, 2009 for 150 million euros and 2 million euros, respectively, refer to obligations to be fulfilled in connection with transactions that are not typically part of the Group s operating cycle . Purchase commitments include obligations for 147 million euros related to the DVB-H contracts entered into by Telecom Italia with the main domestic television operators (particularly the Mediaset Group and Sky Italia) to provide the TIM TV service.

The Parent Company, Telecom Italia, issued weak comfort letters, for a total of 34 million euros, on behalf of ETECSA for vendor financing.

Sureties were provided by third parties to Group companies, amounting to 3,468 million euros, to guarantee financing received (2,283 million euros) and performance under contracts outstanding (1,185 million euros).

Details of the main sureties at December 31, 2009 are as follows:

| Issuer | Amount (millions of euros) |
|---|---|
| BBVA Banco Bilbao Vizcaya Argentaria | 789 |

| | |
|---|---|
| Intesa SanPaolo | 295 |
| Sumitomo | 129 |
| Banca Nazionale del Lavoro | 242 |
| Bank of Tokyo  Mitsubishi UFJ | 252 |
| Banco Santander | 86 |
| Other banks in favor of the EIB(1) | 229 |
| Others for guarantees related to the 3G service in Brazil | 151 |

(1) For loans provided by the EIB to fund the following projects Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network and Telecom Italia Banda Larga Mezzogiorno. The guarantees provided, for 168 million euros, for the loan granted by the EIB for the Telecom Italia BroadBand France Project, which was repaid before maturity on February 27, 2009, are valid for 13 months after repayment, in accordance with the agreement for protection against any claw-back risk.

**d) Assets pledged as collateral for financial liabilities**

The contracts for supported loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to certain operating companies of the Tim Brasil group for a total

equivalent amount of 744 million euros are guaranteed by a part of the receipts of those companies, deposited in bank accounts that are pledged in favor of BNDES. The bank will have access to such amounts only in the case of default by the companies, otherwise the funds are automatically transferred to accounts to which the latter have full access.

**NOTE 29 REVENUES**

Revenues amounted to 27,163 million euros in 2009, 29,000 million euros in 2008 and 29,802 million euros in 2007, showing a decrease of 1,837 million euros in 2009 compared to 2008 and of 802 million euros in 2008 compared to 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Sales | 1,783 | 2,295 | 2,260 |
| Services | 25,380 | 26,702 | 27,531 |
| Revenues on construction contracts | | 3 | 11 |
| **Total** | **27,163** | **29,000** | **29,802** |

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 3,866 million euros (4,528 million euros in 2008 and 4,895 million in 2007).

For a breakdown of revenues by operating segment/geographical area, reference should be made to the Note *Segment Reporting* .

**NOTE 30 OTHER INCOME**

Other income amounted to 282 million euros in 2009, 336 million euros in 2008 and 383 million euros in 2007, showing a decrease of 54 million euros in 2009 compared to 2008 and of 47 million euros in 2008 compared to 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Late payment fees charged for telephone services | 71 | 86 | 90 |
| Recovery of costs for employees purchases and services rendered | 46 | 51 | 50 |
| Capital and operating grants | 49 | 42 | 33 |
| Damage compensations, penalties and sundry recoveries | 30 | 64 | 40 |
| Sundry income | 86 | 93 | 170 |
| **Total** | **282** | **336** | **383** |

**NOTE 31 ACQUISITION OF GOODS AND SERVICES**

Acquisition of goods and services amounted to 11,480 million euros in 2009, 13,120 million euros in 2008 and 13,442 million euros in 2007, showing a decrease of 1,640 million euros in 2009 compared to 2008 and of 322 million euros in 2008 compared to 2007.

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Details are as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| **Acquisition of raw materials and merchandise** | **(A)** | **1,852** | **2,707** | **2,620** |
| **Costs of services:** | | | | |
| Revenues due to other TLC operators | | 3,866 | 4,528 | 4,895 |
| Interconnection costs | | 50 | 58 | 84 |
| Commissions, sales commissions and other selling expenses | | 1,409 | 1,443 | 1,563 |
| Advertising and promotion expenses | | 603 | 528 | 554 |
| Professional consulting and services | | 340 | 394 | 401 |
| Utilities | | 408 | 434 | 417 |
| Maintenance | | 365 | 345 | 335 |
| Outsourcing costs for other services | | 482 | 501 | 415 |
| Mailing and delivery expenses for telephone bills, directories and other materials to customers | | 91 | 101 | 111 |
| Other service expenses | | 793 | 858 | 932 |
| | **(B)** | **8,407** | **9,190** | **9,707** |
| **Lease and rental costs:** | | | | |
| Property lease costs | | 572 | 572 | 562 |
| TLC circuit lease rents and rents for use of satellite systems | | 366 | 341 | 300 |
| Other lease and rental costs | | 283 | 310 | 253 |
| | **(C)** | **1,221** | **1,223** | **1,115** |
| **Total** | **(A+B+C)** | **11,480** | **13,120** | **13,442** |

**NOTE 32 EMPLOYEE BENEFITS EXPENSES**

Employee benefits expenses amounted to 3,734 million euros in 2009, 4,114 million euros in 2008 and 3,715 million euros in 2007, showing a decrease of 380 million euros in 2009 compared to 2008 and an increase of 399 million euros in 2008 compared to 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Employee benefits expenses at payroll:** | | | |
| Wages and salaries | 2,570 | 2,597 | 2,579 |
| Social security expenses | 942 | 944 | 919 |

| | | | | |
|---|---|---|---|---|
| Employee severance indemnities | | 52 | 69 | 68 |
| Other employee expenses | | 100 | 92 | 75 |
| | **(A)** | **3,664** | **3,702** | **3,641** |
| **Temp work costs** | **(B)** | **21** | **38** | **40** |
| **Miscellaneous expenses for personnel and for other labor related services rendered:** | | | | |
| Remuneration of personnel other than employees | | 9 | 9 | 15 |
| Charges for termination benefit plans | | 40 | 366 | 157 |
| Other | | | (1) | (138) |
| | **(C)** | **49** | **374** | **34** |
| **Total** | **(A+B+C)** | **3,734** | **4,114** | **3,715** |

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In 2009, the reduction in payroll expenses and temp work costs is mainly due to lower expenses as a result of a contraction in the average number of the salaried workforce (-3,544 compared to December 31, 2008) and is mainly offset by the effect of the continuing increase in minimum salaries established by the TLC collective national labor contract since June 2008 and the impact of expenses for the renewal of the collective national labor contract on October 23, 2009.

In 2008, charges for termination benefit incentives (366 million euros) had included 287 million euros relating to the Domestic Business Unit for the mobility agreements for collective dismissals, under Law 223/91, signed with the labor unions by Telecom Italia (September 19, 2008) and Telecom Italia Sparkle (October 28, 2008), as well as 5 million euros for mobility agreements, under Law 223/91, signed by Olivetti and Olivetti I-Jet (December 11, 2008).

The average equivalent number of salaried employees, including those with temp work contracts and excluding those of Discontinued operations/Non-current assets held for sale, is 69,964 in 2009 (73,508 in 2008 and 75,735 in 2007). A breakdown by category is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | | (units) | |
| Executives | 1,155 | 1,243 | 1,294 |
| Middle management | 5,037 | 5,026 | 4,806 |
| White collars | 63,204 | 65,868 | 67,762 |
| Blue collars | 252 | 298 | 340 |
| **Employees** | **69,648** | **72,435** | **74,202** |
| **Personnel with temp work contracts** | **316** | **1,073** | **1,533** |
| **Total employees(*)** | **69,964** | **73,508** | **75,735** |

(*) Excluding employees of Discontinued operations/Non-current assets held for sale (2,168 in 2009, 3,277 in 2008 and 3,893 in 2007).

The number of employees in service at December 31, 2009, including those with temp work contracts but not employees relating to Discontinued operations/Non-current assets held for sale , is 71,384 (75,320 at December 31, 2008 and 79,238 at December 31, 2007).

**NOTE 33 OTHER OPERATING EXPENSES**

Other operating expenses amounted to 1,616 million euros in 2009, 1,631 million euros in 2008 and 2,268 million euros in 2007, showing a decrease of 15 million euros in 2009 compared to 2008 and a decrease of 637 million euros in 2008 compared to 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Impairments and expenses in connection with credit management | 565 | 687 | 927 |
| Accrual to provisions | 168 | 74 | 384 |
| TLC operating fees | 318 | 315 | 283 |
| Taxes on revenues of Brazilian companies | 271 | 282 | 266 |
| Indirect duties and taxes | 128 | 139 | 156 |
| Penalties, settlement compensation and administrative sanctions | 73 | 63 | 60 |
| Association dues and fees, donations, scholarships and traineeships | 26 | 26 | 25 |
| Sundry expenses | 67 | 45 | 167 |
| **Total** | **1,616** | **1,631** | **2,268** |
| *of which, included in the supplementary disclosures on financial instruments* | *565* | *687* | *927* |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

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Impairments and expenses in connection with credit management include 404 million euros referring to the Domestic Business Unit (402 million euros in 2008) and 153 million euros to the Brazil Business Unit (280 million euros in 2008 which had included higher receivables impairments referring to the Televendita sales channel).

Accruals to provisions recorded mainly for disputes in progress include 136 million euros referring to the Domestic Business Unit (31 million euros in 2008) and 25 million euros to the Brazil Business Unit (36 million euros in 2008).

## NOTE 34 INTERNALLY GENERATED ASSETS

**Internally generated assets** amounted to 515 million euros in 2009, 506 million euros in 2008 and 524 million euros in 2007, showing an increase of 9 million euros in 2009 compared to 2008 and a decrease of 18 million euros in 2008 compared to 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Intangible assets with a finite useful life | 291 | 312 | 327 |
| Property, plant and equipment owned | 224 | 194 | 197 |
| **Total** | **515** | **506** | **524** |

Internally generated assets mainly include labor costs for technical staff dedicated to software development and work in connection with the executive design, construction and testing of network installations.

## NOTE 35 DEPRECIATION AND AMORTIZATION

**Depreciation and amortization** amounted to 5,551 million euros in 2009, 5,676 million euros in 2008 and 5,518 million euros in 2007, showing a decrease of 125 million euros in 2009 compared to 2008 and an increase of 158 million euros in 2008 compared to 2007.

Details are as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| **Amortization of intangible assets with a finite useful life:** | | | | |
| Industrial patents and intellectual property rights | | 1,662 | 1,739 | 1,720 |
| Concessions, licenses, trademarks and similar rights | | 272 | 272 | 251 |
| Other intangible assets | | 317 | 313 | 257 |
| | **(A)** | **2,251** | **2,324** | **2,228** |
| **Depreciation of tangible assets owned:** | | | | |
| Buildings (civil and industrial) | | 45 | 43 | 44 |
| Plant and equipment | | 2,780 | 2,761 | 2,671 |
| Manufacturing and distribution equipments | | 16 | 23 | 31 |
| Ships | | 7 | 8 | 7 |
| Other assets | | 328 | 393 | 408 |
| | **(B)** | **3,176** | **3,228** | **3,161** |
| **Depreciation of tangible assets held under finance leases:** | | | | |
| Buildings (civil and industrial) | | 109 | 104 | 101 |
| Plant and equipment | | | | |
| Aircrafts | | 3 | 3 | 3 |
| Other assets | | 12 | 17 | 25 |
| | **(C)** | **124** | **124** | **129** |
| **Total** | **(A+B+C)** | **5,551** | **5,676** | **5,518** |

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An analysis of depreciation and amortization by segment is presented in the Note *Segment reporting* .

In 2009, the reduction in amortization is principally in the Domestic Business Unit (-116 million euros) and the remaining amount is due to the effect of the change in the BRL/euro exchange rate (-34 million euros) and higher depreciation and amortization charges by the Brazil Business Unit.

**NOTE 36 GAINS (LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS**

**Gains (losses) on disposals of non-current assets** amounted to a loss of 59 million euros in 2009, a gain of 35 million euros in 2008 and 5 million euros in 2007.

Details are as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | | (millions of euros) | |
| **Gains on disposals of non-current assets:** | | | | |
| Gains on the retirement/disposal of intangible and tangible assets | | 14 | 35 | 32 |
| Gains on the disposal of investments in subsidiaries | | | 9 | 1 |
| | **(A)** | **14** | **44** | **33** |
| **Losses on disposals of non-current assets:** | | | | |
| Losses on the retirement/disposal of intangible and tangible assets | | 62 | 9 | 28 |
| Losses on the disposal of investments in subsidiaries | | 11 | | |
| | **(B)** | **73** | **9** | **28** |
| **Total** | **(A-B)** | **(59)** | **35** | **5** |

In 2009, **net losses on disposals of non-current assets** mainly include:

- the negative impact of a total of 39 million euros in connection with the final disposal of the software for the credit management of the fixed consumer clientele segment of the Domestic Business Unit;
- the negative impact of a total of 11 million euros connected with the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A.

In 2008, this line item included net gains of 9 million euros from the sale of the Pay-per-View business by Telecom Italia Media and net other gains mainly referring to the sale of buildings.

**NOTE 37 IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS**

**Impairment losses on non-current assets,** amounted to 12 million euros in 2009 and in 2008 and 44 million euros in 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Impairment losses on non-current assets:** | | | |
| · on intangible assets | (7) | (6) | (22) |
| · on tangible assets | (5) | (6) | (22) |
| **Total** | **(12)** | **(12)** | **(44)** |

In 2009 include 6 million euros for the impairment loss, carried out on the basis of the impairment test s results, of the goodwill attributed, within business unit Other operations, to the consolidated company BBNed and for the remaining part impairment losses mainly taken by the Domestic Business Unit and refer to unused network materials and telephone equipment which are being replaced by new technologically advanced materials.

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In 2008, **impairment losses on intangible assets** include the writedown of software projects and equipment not used by the Domestic Business Unit.

In 2008, **impairment losses on tangible assets** primarily refer to network materials (cables, reels and telephone equipment) which are being replaced by new technologically advanced equipment by the Domestic Business Unit.

## NOTE 38 OTHER INCOME (EXPENSES) FROM INVESTMENTS

**Other income (expenses) from investments** amounted to -51 million euros in 2009, 4 million euros in 2008 and 479 million euros in 2007.

Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Dividends from Other investments | 2 | 3 | 7 |
| Net gains on disposals of Other investments | 4 | 2 | 462 |
| Writedown of Italtel group | (39) | | |
| Writedowns of Other investments and other income /expenses | (18) | (1) | 10 |
| **Total** | **(51)** | **4** | **479** |
| *of which, included in the supplementary disclosures on financial instruments* | *(43)* | *3* | *237* |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

In particular, in 2007, net gains on the sale of other investments included the gains on the sale of the entire stakes held in Oger Telecom (86 million euros), Capitalia (38 million euros), Mediobanca (109 million euros), Solpart Participações (201 million euros) and Brasil Telecom Participações (27 million euros).

## NOTE 39 FINANCE INCOME

**Finance income** amounted to 2,561 million euros in 2009, 3,748 million euros in 2008 and 2,912 million euros in 2007, showing a decrease of 1,187 million euros in 2009 compared to 2008 and an increase of 836 million euros in 2008 compared to 2007.

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Details are as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| **Other finance income:** | | | | |
| Income from financial receivables classified as non-current assets | | 4 | 16 | 23 |
| Income from securities other than investments, classified as non-current assets | | | 1 | 4 |
| Income from securities other than investments, classified as current assets | | 19 | 13 | 17 |
| **Income other than the above:** | | | | |
| Interest income | | 132 | 328 | 278 |
| Foreign exchange gains | | 445 | 934 | 556 |
| Income from fair value hedging derivatives | | 462 | 400 | 421 |
| Reclassification of the Reserve for cash flow hedge derivatives (interest rate component) from equity to the separate income statement | | 617 | 574 | 491 |
| Income from non-hedging derivatives | | 32 | 36 | 39 |
| Miscellaneous finance income | | 18 | 84 | 30 |
| | **(A)** | **1,729** | **2,386** | **1,859** |
| **Positive fair value adjustments to**: | | | | |
| Fair value hedge derivatives | | 38 | 1,103 | 241 |
| Underlying financial assets and liabilities of fair value hedge derivatives | | 674 | 32 | 720 |
| Non-hedging derivatives | | 120 | 226 | 91 |
| | **(B)** | **832** | **1,361** | **1,052** |
| **Impairment reversals on financial assets** | **(C)** | | **1** | **1** |
| **Total** | **(A+B+C)** | **2,561** | **3,748** | **2,912** |
| *of which, included in the supplementary disclosures on financial instruments* | | *298* | *700* | *437* |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

In 2009, foreign exchange gains (445 million euros) decreased by 489 million euros compared to 2008 (934 million euros). This amount was reduced by 207 million euros of foreign exchange losses originating from the Reversal of the Reserve for cash flow hedge derivatives to the income statement (558 million euros in 2008). The counterpart of foreign exchange gains is represented by foreign exchange losses (387 million euros in 2009; 1,071 million euros in 2008). Additional information is provided in the Note *Finance expenses* .

In 2009, income from fair value hedge derivatives (462 million euros) increased by 62 million euros compared to 2008 (400 million euros) and refers to CCIRS contracts for 167 million, IRS contracts for 291 million euros and other derivative contracts for 4 million euros.

In 2009, the positive effect of the Reclassification of the Reserve for cash flow hedge derivatives from equity to the separate income statement for the interest rate component (617 million euros) increased by 43 million euros compared to 2008 (574 million euros). It refers to CCIRS contracts for 359 million euros and IRS contracts for 258 million euros which include 22 million euros for the positive effect of the early closing of derivatives, of which 20 million euros refers to the closing of cash flow hedge derivatives on 1,500 million euros of underlying debt relating to the Term Loan expiring in January 2010.

In 2009, income from non-hedging derivatives (32 million euros) decreased by 4 million euros compared to 2008 (36 million euros) and refers to IRS contracts for 23 million euros and CCIRS contracts for 9 million euros.

In 2009, miscellaneous finance income (18 million euros) decreased by 66 million euros compared to 2008 (84 million euros) mainly due to the absence of income generated by the purchase of own bonds (62 million euros).

In 2009, positive fair value adjustments to fair value hedge derivatives (38 million euros) decreased by 1,065 million euros compared to 2008 (1,103 million euros). The counterpart of this amount is represented by negative fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives which amount to 55 million euros (1,164 million euros in 2008).

In 2009, positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (674 million euros) increased by 642 million euros compared to 2008 (32 million euros). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedge derivatives equal to 667 million euros (23 million euros in 2008).

In 2009, positive fair value adjustments to non-hedging derivatives (120 million euros) decreased by 106 million euros compared to 2008 (226 million euros); 166 million euros of the decrease refers to the effects of transactions put into place by the Brazil Business Unit (on financial debt in foreign currencies, entirely hedged but not qualifying for hedge accounting). The counterpart of this amount is represented by foreign exchange losses. This negative effect is partly offset by the positive effect of the measurement of the Sofora Telecomunicaciones S.A. options in the amount of 60 million euros (a negative 190 million euros in 2008).

In 2008, foreign exchange gains amounted to 934 million euros and increased by 378 million euros compared to 2007 (556 million euros). This amount was reduced by 558 million euros of foreign exchange losses originating from the Reversal of the Reserve for cash flow hedge derivatives to the income statement (540 million euros in December 2007). The counterpart of foreign exchange gains is represented by foreign exchange losses (1,071 million euros in 2008, 561 million euros in 2007). Additional information is provided in the Note *Finance expenses* .

In 2008, income from fair value hedge derivatives (400 million euros) decreased by 21 million euros compared to 2007 (421 million euros) and relates to CCIRS contracts for 252 million euros and IRS contracts for 148 million euros.

In 2008, the positive effect of the Reversal of the Reserve for cash flow hedge derivatives to the statement of income (interest rate component (574 million euros) increased by 83 million euros compared to 2007 (491 million euros)).

It refers to CCIRS contracts for 304 million euros and IRS contracts for 270 million euros which include 19 million euros for the positive effect of the early closing of cash flow hedge derivatives on 1,500 million euros of underlying debt relating to the Term Loan expiring in January 2010.

In 2008, income from non-hedging derivatives (36 million euros) decreased by 3 million euros compared to 2007 (39 million euros) and relates to IRS contracts for 27 million euros, CCIRS contracts for 7 million euros and other derivative contracts for 2 million euros.

In 2008, miscellaneous finance income (84 million euros) increased by 54 million euros compared to 2007 (30 million euros).

In 2008, positive fair value adjustments to fair value hedge derivatives of 1,103 million euros increased by 862 million euros compared to 2007 (241 million euros). The counterpart of this amount is represented by negative fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives which amount to 1,164 million euros (269 million euros in 2007).

In 2008, positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives of 32 million euros decreased by 688 million euros compared to 2007 (720 million euros). The counterpart of this amount is represented by negative fair value adjustments of 23 million euros to the corresponding fair value hedge derivatives (722 million euros in 2007).

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In 2008, positive fair value adjustments to non-hedging derivatives of 226 million euros increased by 135 million euros compared to 2007 (91 million euros); 221 million euros of the increase refers to the effects of transactions put into place by the Brazil Business Unit (on financial debt in foreign currencies, entirely hedged but not qualifying for hedge accounting). The counterpart of this amount is represented by foreign exchange gains and losses. This effect is partly offset by the absence of the positive effect of the measurement of the Sofora Telecomunicaciones S.A. option which was equal to 70 million euros in 2007.

## NOTE 40 FINANCE EXPENSES

**Finance expenses** amounted to 4,731 million euros in 2009, 6,359 million euros in 2008 and 5,095 million euros in 2007, showing a decrease of 1,628 million euros in 2009 compared to 2008 and an increase of 1,264 million euros in 2008 compared to 2007.

Details are as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| **Interest expenses and other finance expenses:** | | | | |
| Interest expenses and other costs relating to bonds | | 1,663 | 1,746 | 1,824 |
| Interest expenses to banks | | 242 | 361 | 360 |
| Interest expenses to others | | 224 | 225 | 232 |
| | | 2,129 | 2,332 | 2,416 |
| Commissions | | 28 | 23 | 28 |
| Foreign exchange losses | | 387 | 1,071 | 561 |
| Charges from fair value hedge derivatives | | 355 | 507 | 435 |
| Reclassification of the Reserve for cash flow hedge derivatives (interest rate component) from equity to the separate income statement | | 751 | 570 | 421 |
| Charges from non-hedging derivatives | | 63 | 67 | 44 |
| Miscellaneous finance expenses | | 175 | 299 | 171 |
| | **(A)** | **3,888** | **4,869** | **4,076** |
| **Negative fair value adjustments to:** | | | | |
| Fair value hedge derivatives | | 667 | 23 | 722 |
| Underlying financial assets and liabilities of fair value hedge derivatives | | 55 | 1,164 | 269 |
| Non-hedging derivatives | | 121 | 303 | 28 |
| | **(B)** | **843** | **1,490** | **1,019** |
| **Impairment losses on financial assets (securities other than investments)** | **(C)** | | | |
| **Total** | **(A+B+C)** | **4,731** | **6,359** | **5,095** |
| *of which, included in the supplementary disclosures on financial instruments* | | *2,263* | *2,767* | *2,414* |

Further details on Financial Instruments are provided in the Note *Supplementary disclosures on financial instruments* .

In 2009, foreign exchange losses (387 million euros) decreased by 684 million euros compared to 2008 (1,071 million euros). This amount was reduced by 135 million euros of foreign exchange gains arising from the Reversal of the Reserve for cash flow hedge derivatives to the income statement (343 million euros in 2008). The counterpart of this amount is represented by foreign exchange gains (445 million euros in 2009, 934 million euros in 2008).

In 2009, charges from fair value hedge derivatives (355 million euros) decreased by 152 million euros compared to 2008 (507 million euros) and refer to CCIRS contracts for 322 million euros and IRS contracts for 33 million euros.

In 2009, the negative effect of the Reclassification of the Reserve for cash flow hedge derivatives from equity to the separate income statement for the interest rate component (751 million euros) increased by 181 million euros compared to 2008 (570 million euros) and refers to CCIRS contracts for 505 million euros, IRS contracts for 245 million euros and other derivative contracts for 1 million euros.

In 2009, charges from non-hedging derivatives (63 million euros) decreased by 4 million euros compared to 2008 (67 million euros) and refer to IRS contracts for 19 million euros, CCIRS contracts for 43 million euros and other derivative contracts for 1 million euros.

In 2009, miscellaneous finance expenses (175 million euros) decreased by 124 million euros compared to 2008 (299 million euros). This decrease is mainly due to the absence of a writedown on the receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc. relating to derivative transactions hedging the financial risks on financial debt for 58 million euros and the absence of expenses generated by discounting to present value the debt on the purchase of the 3G mobile telephone licenses by the Brazil Business Unit for 32 million euros.

In 2009, miscellaneous finance expenses included 10 million euros (10 million euros in 2008) as a charge to provide for interest due on VAT in connection with the investigation involving Telecom Italia Sparkle and the restatement of prior year financial statements.

In 2009, negative fair value adjustments to fair value hedge derivatives (667 million euros) increased by 644 million euros compared to 2008 (23 million euros). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives which amount to 674 million euros (32 million euros in 2008).

In 2009, negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (55 million euros) decreased by 1,109 million euros compared to 2008 (1,164 million euros). The counterpart of this amount is represented by positive fair value adjustments to the corresponding fair value hedge derivatives equal to 38 million euros (1,103 million euros in 2008).

In 2009, negative fair value adjustments to non-hedging derivatives of 121 million euros decreased by 182 million euros compared to 2008 (303 million euros). This reduction is mainly due to the absence of the negative effects of the measurement of the Sofora Telecomunicaciones S.A. option for 190 million euros (positive effect of 60 million euros in 2009).

In 2008, interest expenses and other financial expenses (2,332 million euros) decreased by 84 million euros compared to 2007 (2,416 million euros) mainly as a result of the reduction in the average net debt exposure, which compensated for the negative effect of a rise in interest rates.

In 2008, foreign exchange losses (1,071 million euros) increased by 510 million euros compared to 2007 (561 million euros). This amount was reduced by 343 million euros by foreign exchange gains arising from the Reversal of the Reserve for cash flow hedge derivatives to the income statement. The counterpart of this amount is represented by foreign exchange gains (934 million euros in 2008; 556 million euros in 2007).

In 2008, charges from fair value hedge derivatives (507 million euros) increased by 72 million euros compared to 2007 (435 million euros) and refer to CCIRS contracts for 390 million euros and IRS contracts for 117 million euros.

The negative effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component (570 million euros) increased by 149 million euros compared to 2007 (421 million euros) and refers to CCIRS contracts for 396 million euros and IRS contracts for 174 million euros.

In 2008, charges from non-hedging derivatives (67 million euros) increased by 23 million euros compared to 2007 (44 million euros) and refer to IRS contracts for 28 million euros, CCIRS contracts for 38 million euros and other derivative contracts for 1 million euros.

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In 2008, miscellaneous finance expenses (299 million euros) increased by 128 million euros compared to 2007 (171 million euros). This change refers to the writedown of the receivables from Lehman Brothers for 58 million euros following the company s announcement that it had begun bankruptcy proceedings. The announcement led to a writedown recognized by Telecom Italia on the derivative transactions hedging the financial risks on its financial debt. The increase is also due to the expenses generated by discounting to present value the debt on the purchase of the 3G mobile telephone licenses by the Brazil Business Unit for 32 million euros.

In 2008, miscellaneous finance expenses included 10 million euros (8 million euros in 2007) as a charge to provide for interest due on VAT in connection with the investigation involving Telecom Italia Sparkle and the restatement of prior year financial statements.

In 2008, negative fair value adjustments to fair value hedge derivatives (23 million euros) decreased by 699 million euros compared to 2007 (722 million euros). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (32 million euros; 720 million euros in 2007).

In 2008, negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (1,164 million euros) increased by 895 million euros compared to 2007 (269 million euros). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedge derivatives (1,103 million euros; 241 million euros in 2007).

In 2008, negative fair value adjustments to non-hedging derivatives of 303 million euros increased by 275 million euros compared to the 2007 (28 million euros); 82 million euros of the increase relates to the effects of transactions put into place by the Brazil Business Unit (on financial debt in foreign currencies, entirely hedged but not qualifying for hedge accounting). The counterpart of this amount is represented by foreign exchange gains and losses and the negative effect of the measurement of the Sofora Telecomunicaciones S.A. option for 190 million euros in 2008 (a positive effect of 70 million euros in 2007).

## NOTE 41 INCOME TAX EXPENSE

**Taxes on continuing operations** amounted to 1,121 million euros in 2009, 677 million euros in 2008 and 1,661 million euros in 2007, showing an increase of 444 million in 2009 compared to 2008 and a decrease of 984 in 2008 compared to 2007. Details are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| Current taxes for the year | 1,288 | 1,292 | 866 |
| Lower current taxes of prior years | (101) | (106) | (144) |
| Benefit of reimbursement application for Irap deductibility | (35) | | |
| Substitute tax (tax realignment) | | 533 | |
| **Total current taxes** | **1,152** | **1,719** | **722** |
| Deferred taxes | (31) | (1,042) | 939 |

| | | | | |
|---|---|---|---|---|
| **Total taxes on continuing operations** | **(A)** | **1,121** | **677** | **1,661** |
| **Total taxes on Discontinued operations/Non-current assets held for sale** | **(B)** | **(7)** | **(36)** | **17** |
| **Total income tax expense** | **(A+B)** | **1,114** | **641** | **1,678** |

In particular, pursuant to Law No. 244 dated December 24, 2007, in 2008 Italian entities which in prior years had accelerated the tax depreciation of their non-current assets were allowed to revalue these non-current assets for tax purposes, realigning the tax basis to their book basis, by paying in three installments over 24 months a substitute tax. Telecom Italia and some of its Italian subsidiaries decided to take advantage of this tax opportunity and recorded a provision for such a substitute tax for a total amount of 532 million euros. Since the payment of the substitute tax effectively increased the tax basis of these depreciable assets, the temporary difference between the carrying amount of the non-current assets and their tax basis was eliminated, the deferred

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tax liabilities recorded in prior years pertaining to these temporary differences were reversed and the 2008 income statement line item income tax expense benefited from a 1,046 million euros liability reversal.

Net of this effect, income tax expense posts a reduction of 42 million euros in 2009 compared to the prior year and benefits from the effect of the presentation of the reimbursement application for prior years Ires taxes by the Parent, Telecom Italia, corresponding to 10% of deductible Irap taxes under Legislative Decree 185 dated November 29, 2008, art. 6.

Lower current taxes of prior years mainly refer to lower taxes that arose upon the presentation of the tax return by the Parent, Telecom Italia compared to the estimate made in the 2008 financial statements, on the basis of a prudent interpretation of the tax laws then in effect.

Taxes on Discontinued operations/Non-current assets held for sale are classified in the income statement in Profit (loss) from Discontinued operations/Non-current assets held for sale .

The profit before tax and the income tax expense for the years ended December 31, 2009 and 2008 are summarized as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| **Profit before tax:** | | | | |
| from continuing operations | | 3,339 | 2,894 | 4,120 |
| from Discontinued operations/Non-current assets held for sale | | (629) | (75) | (82) |
| **Total profit before tax** | | **2,710** | **2,819** | **4,038** |
| **Current tax** | **(A)** | **1,152** | **1,707** | **746** |
| **Deferred tax** | **(B)** | **(38)** | **(1,066)** | **932** |
| **Total income tax expense** | **(A+B)** | **1,114** | **641** | **1,678** |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (millions of euros) | | |
| **Income tax expense:** | | | |
| on continuing operations | 1,121 | 677 | 1,661 |
| on Discontinued operations/Non-current assets held for sale | (7) | (36) | 17 |
| **Total income tax expense** | **1,114** | **641** | **1,678** |

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The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy, and the effective tax expense for the years ended December 31, 2009, 2008 and 2007 is the following:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | (millions of euros) | rate | (millions of euros) | rate | (millions of euros) | rate |
| **Profit before tax:** | | | | | | |
| from continuing operations | 3,339 | | 2,894 | | 4,120 | |
| from Discontinued operations/Non-current assets held for sale | (629) | | (75) | | (82) | |
| **Total profit before tax** | **2,710** | | **2,819** | | **4,038** | |
| Taxes calculated at the tax rate in force | 745 | 27.5% | 775 | 27.5% | 1,333 | 33.0% |
| Tax losses for the year not considered recoverable | 24 | 0.9% | 123 | 4.4% | 73 | 1.8% |
| Tax losses not considered recoverable in previous years and recovered during the year | (77) | (2.9%) | (118) | (4.2%) | (91) | (2.3%) |
| Non-deductible costs | 48 | 1.8% | 67 | 2.4% | 99 | 2.5% |
| Effect of change in IRES tax rate | | | | | (37) | (0.9%) |
| Withholding tax | | | | | (96) | (2.4%) |
| Tax realignment | | | (515) | (18.3%) | | |
| Benefit of reimbursement application for IRAP deductibility | (35) | (1.3%) | | | | |
| Goodwill impairment loss and accruals to provisions for disposal Hansenet | 154 | 5.7% | | | | |
| Other net differences | (85) | (3.2%) | (51) | (1.8%) | (29) | (0.7%) |
| IRAP (excluding the effect of tax realignment) | 340 | 12.6% | 360 | 12.7% | 426 | 10.5% |
| **Total effective taxes booked to the income statement** | **1,114** | **41.1%** | **641** | **22.7%** | **1,678** | **41.5%** |

**NOTE 42 PROFIT FOR THE YEAR**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| | | (millions of euros) | | |
| Profit for the year attributable to: | | | | |
| **Owners of the Parent** | | | | |
| Profit (loss) from continuing operations | | 2,203 | 2,216 | 2,452 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | | (622) | (39) | (99) |
| **Profit (loss) attributable to the Owners of the Parent** | **(A)** | **1,581** | **2,177** | **2,353** |
| **Non-controlling interests** | | | | |
| Profit (loss) from continuing operations | | 15 | 1 | 7 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | | | | |
| **Profit (loss) attributable to the Non-controlling interests** | **(B)** | **15** | **1** | **7** |

| | | | | |
|---|---|---|---|---|
| **Profit for the year** | **(A+B)** | **1,596** | **2,178** | **2,360** |

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**NOTE 43 EARNINGS PER SHARE**

The potential shares from the conversion of stock options and convertible bonds have an anti-dilutive effect and therefore have not been considered in the calculation of earnings per share.

The additional dividends to which the savings shareholders are entitled (at an unvarying amount of 0.011 euros per share) conventionally were allocated entirely to the profit from continuing operations.

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| **Basic and Diluted Earnings Per Share** | | | | |
| Profit attributable to owners of the Parent | | 1,581 | 2,177 | 2,353 |
| Less: additional dividend to Savings Shares ( 0.011 per share) | | (66) | (66) | (66) |
| | (millions of euros) | 1,515 | 2,111 | 2,287 |
| Weighted average number of Ordinary and Savings Shares | (millions) | 19,247 | 19,273 | 19,281 |
| Basic and diluted earnings per share Ordinary Shares | | 0.08 | 0.11 | 0.12 |
| Plus: additional dividend per Savings Share ( 0.011 per share) | | 0.01 | 0.01 | 0.01 |
| Basic and diluted earnings per share Savings Shares | (euro) | 0.09 | 0.12 | 0.13 |
| **Basic and Diluted Earnings Per Share From Continuing Operations** | | | | |
| Profit from continuing operations | | 2,203 | 2,216 | 2,452 |
| Less: additional dividend to Savings Shares ( 0.011 per share) | | (66) | (66) | (66) |
| | (millions of euros) | 2,137 | 2,150 | 2,386 |
| Weighted average number of Ordinary and Savings Shares | (millions) | 19,247 | 19,273 | 19,281 |
| Basic and diluted earnings per share from continuing operations Ordinary Shares | | 0.11 | 0.11 | 0.12 |
| Plus: additional dividend per Savings Share ( 0.011 per share) | | 0.01 | 0.01 | 0.01 |
| Basic and diluted earnings per share from continuing operations Savings Shares | (euro) | 0.12 | 0.12 | 0.13 |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| **Basic and Diluted Earnings Per Share From Discontinued operations/Non-current assets held for sale** | | | | |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | (millions of euros) | (622) | (39) | (99) |
| Weighted average number of Ordinary and Savings Shares | (millions) | 19,247 | 19,273 | 19,281 |
| Basic and diluted earnings (loss) per share from Discontinued operations/Non-current assets held for sale Ordinary Shares | (euro) | (0.03) | 0.00 | 0.00 |
| Basic and diluted earnings (loss) per share from Discontinued operations/Non-current assets held for sale Savings Shares | (euro) | (0.03) | 0.00 | 0.00 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Weighted average number of Ordinary Shares | 13,220,792,908 | 13,246,643,947 | 13,254,934,303 |
| Weighted average number of Savings Shares | 6,026,120,661 | 6,026,120,661 | 6,026,120,661 |
| **Total** | **19,246,913,569** | **19,272,764,608** | **19,281,054,964** |

**NOTE 44 SEGMENT REPORTING**

**a) Segment reporting**

Following the inclusion of HanseNet Telekommunikation GmbH in Discontinued operations, the European BroadBand Business Unit is no longer presented. The other companies in the business unit have been transferred to Other Operations. For purposes of comparison, the data reported by operating segment for comparative periods have been restated.

Segment reporting is based on the following operating segments:

- Domestic
- Brazil

- Media
- Olivetti
- Other Operations

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**CONSOLIDATED INCOME STATEMENTS BY OPERATING SEGMENT**

| | Domestic | | | Brazil | | | Media | | | Olivetti | | | Other Operations | | | Adjustments and eliminations | | | Consolidated T | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 |
| | | | | | | | | | | (millions of euros) | | | | | | | | | | |
| y | 21,604 | 23,121 | 23,942 | 5,012 | 5,201 | 4,982 | 200 | 240 | 240 | 260 | 303 | 352 | 87 | 135 | 286 | | | | 27,163 | 29,000 |
| | 58 | 106 | 92 | 10 | 7 | 8 | 30 | 47 | 23 | 90 | 49 | 56 | 71 | 83 | 42 | (259) | (292) | (221) | | |
| **by** | | | | | | | | | | | | | | | | | | | | |
| | **21,662** | **23,227** | **24,034** | **5,022** | **5,208** | **4,990** | **230** | **287** | **263** | **350** | **352** | **408** | **158** | **218** | **328** | **(259)** | **(292)** | **(221)** | **27,163** | **29,000** |
| me | 248 | 270 | 327 | 16 | 51 | 28 | 3 | 5 | 13 | 21 | 14 | 18 | 3 | 3 | 13 | (9) | (7) | (16) | 282 | 336 |
| **nd me** | **21,910** | **23,497** | **24,361** | **5,038** | **5,259** | **5,018** | **233** | **292** | **276** | **371** | **366** | **426** | **161** | **221** | **341** | **(268)** | **(299)** | **(237)** | **27,445** | **29,336** |
| n of | (8,332) | (9,649) | (10,060) | (2,808) | (3,026) | (2,810) | (164) | (258) | (240) | (296) | (298) | (356) | (84) | (115) | (167) | 204 | 226 | 191 | (11,480) | (13,120) |
| | (3,327) | (3,638) | (3,282) | (207) | (234) | (223) | (67) | (87) | (79) | (66) | (82) | (81) | (72) | (77) | (52) | 5 | 4 | 2 | (3,734) | (4,114) |
| s | (49) | (65) | (66) | | | | (1) | (1) | (1) | (2) | | (1) | | (3) | | | | | (52) | (69) |
| ating | (849) | (718) | (1,399) | (738) | (889) | (821) | (10) | (7) | (14) | (9) | (9) | (24) | (10) | (11) | (13) | | 3 | 3 | (1,616) | (1,631) |
| *ad ases ls to* | (540) | (433) | (1,000) | (178) | (316) | (285) | (6) | (4) | (4) | (8) | (7) | (19) | (1) | (1) | (3) | | | | (733) | (761) |
| | 52 | 18 | (24) | (52) | 101 | 43 | (1) | 1 | 1 | (14) | (7) | (9) | (1) | 1 | | 1 | (1) | | (15) | 113 |
| | 441 | 449 | 487 | 22 | 6 | | | | 1 | | | | | | | 52 | 51 | 36 | 515 | 506 |
| on | | | | | | | | | | | | | | | | | | | | |
| on es) | (4,453) | (4,569) | (4,397) | (1,040) | (1,027) | (1,048) | (60) | (63) | (62) | (5) | (7) | (16) | (21) | (33) | (50) | 28 | 23 | 55 | (5,551) | (5,676) |
| s of t | (42) | 27 | 12 | (6) | (1) | (9) | (11) | 9 | | | | | | | | | | 2 | (59) | 35 |
| t | | | | | | | | | | | | | | | | | | | | |
| t | (6) | (12) | (38) | | | | | | | | | (6) | (7) | (1) | | 1 | 1 | | (12) | (12) |
| | **5,394** | **5,405** | **5,660** | **209** | **189** | **150** | **(80)** | **(113)** | **(117)** | **(19)** | **(37)** | **(66)** | **(34)** | **(15)** | **59** | **23** | **8** | **52** | **5,493** | **5,437** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ofits | | | | | | | | | | |
| and<br>res<br>for<br>quity | | | | | | | | | | |
| | (20) | (15) | 10 | 87 | 79 | 76 | 67 | 64 | | |
| me | | | | | | | | | | |
| s | | | | | | | (51) | 4 | | |
| come | | | | | | | 2,561 | 3,748 | | |
| | | | | | | | (4,731) | (6,359) | | |
| **ore** | | | | | | | | | | |
| | | | | | | | **3,339** | **2,894** | | |
| | | | | | | | (1,121) | (677) | | |
| **n** | | | | | | | | | | |
| | | | | | | | **2,218** | **2,217** | | |
| ) | | | | | | | | | | |
| ed | | | | | | | | | | |
| nt<br>for | | | | | | | | | | |
| | | | | | | | (622) | (39) | | |
| **the** | | | | | | | | | | |
| | | | | | | | **1,596** | **2,178** | | |
| | | | | | | | | | | |
| *e to<br>he* | | | | | | | *1,581* | *2,177* | | |
| *lling* | | | | | | | *15* | *1* | | |

None of the Telecom Italia Group s customers exceeds 10% of consolidated revenues.

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**REVENUES BY OPERATING SEGMENT**

| | Domestic | | | Brazil | | | Media | | | Olivetti | | | Other Operations | | | Adjustments and eliminations | | | Consolidated Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | (millions of euros) | | | | | | | | | | | | | | | | | | | | |
| Revenues from equipment sales third party | 1,141 | 1,587 | 1,476 | 382 | 405 | 437 | | | | 260 | 303 | 347 | | | | | | | 1,783 | 2,295 | 2,260 |
| Revenues from equipment sales intragroup | 2 | 3 | 2 | | 1 | | | | | 52 | 15 | 12 | | | | (54) | (19) | (14) | | | |
| **Revenues from equipment sales** | **1,143** | **1,590** | **1,478** | **382** | **406** | **437** | | | | **312** | **318** | **359** | | | | **(54)** | **(19)** | **(14)** | **1,783** | **2,295** | **2,260** |
| Revenues from services third party | 20,463 | 21,531 | 22,455 | 4,630 | 4,796 | 4,545 | 200 | 240 | 240 | | | 5 | 87 | 135 | 286 | | | | 25,380 | 26,702 | 27,531 |
| Revenues from services intragroup | 56 | 103 | 90 | 10 | 6 | 8 | 30 | 47 | 23 | 38 | 34 | 44 | 71 | 83 | 42 | (205) | (273) | (207) | | | |
| **Total revenues from services** | **20,519** | **21,634** | **22,545** | **4,640** | **4,802** | **4,553** | **230** | **287** | **263** | **38** | **34** | **49** | **158** | **218** | **328** | **(205)** | **(273)** | **(207)** | **25,380** | **26,702** | **27,531** |
| Revenues on construction contracts third party | | 3 | 11 | | | | | | | | | | | | | | | | | 3 | 11 |
| **Total revenues on construction contracts** | | **3** | **11** | | | | | | | | | | | | | | | | | 3 | 11 |
| Third-party revenues | 21,604 | 23,121 | 23,942 | 5,012 | 5,201 | 4,982 | 200 | 240 | 240 | 260 | 303 | 352 | 87 | 135 | 286 | | | | 27,163 | 29,000 | 29,802 |
| Intragroup revenues | 58 | 106 | 92 | 10 | 7 | 8 | 30 | 47 | 23 | 90 | 49 | 56 | 71 | 83 | 42 | (259) | (292) | (221) | | | |
| **Total revenues** | **21,662** | **23,227** | **24,034** | **5,022** | **5,208** | **4,990** | **230** | **287** | **263** | **350** | **352** | **408** | **158** | **218** | **328** | **(259)** | **(292)** | **(221)** | **27,163** | **29,000** | **29,802** |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**CAPITAL EXPENDITURES BY OPERATING SEGMENT**

| | Domestic | | | Brazil | | | Media | | | Olivetti | | | Other Operations | | | Adjustments and eliminations | | | Consolidated Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | (millions of euros) | | | | | | | | | | | | | | | | | | | | |
| Purchase of intangible assets | 1,574 | 1,489 | 1,597 | 421 | 866 | 477 | 27 | 31 | 48 | 1 | | 1 | 3 | 8 | 2 | (9) | (34) | (5) | 2,017 | 2,360 | 2,120 |
| Purchase of tangible assets | 1,949 | 2,169 | 2,467 | 543 | 482 | 388 | 26 | 19 | 21 | 3 | 3 | 7 | 5 | 18 | 28 | | (11) | | 2,526 | 2,680 | 2,911 |
| **Total** | **3,523** | **3,658** | **4,064** | **964** | **1,348** | **865** | **53** | **50** | **69** | **4** | **3** | **8** | **8** | **26** | **30** | **(9)** | **(45)** | **(5)** | **4,543** | **5,040** | **5,031** |

**EMPLOYEES AT THE YEAR END BY OPERATING SEGMENT**

| | Domestic | | Brazil | | Media | | Olivetti | | Other Operations | | Consolidated Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 |
| | (number of employees) | | | | | | | | | | | |
| Employees(*) | 58,736 | 61,816 | 9,783 | 10,285 | 757 | 967 | 1,098 | 1,194 | 1,010 | 1,058 | 71,384 | 75,320 |

(*) Employees at year end do not take into account the number of employees relating to Discontinued operations/Non-current assets held for sale.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**ASSETS AND LIABILITIES BY OPERATING SEGMENT**

| | Domestic | | Brazil | | Media | | Olivetti | | Other Operations | | Adjustments and eliminations | | Consolidate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 |
| | | | | | | | (millions of euros) | | | | | | |
| rrent operating | 59,750 | 60,757 | 5,291 | 3,805 | 486 | 495 | 15 | 17 | 211 | 184 | (49) | (71) | 65,704 |
| operating assets | 6,075 | 6,920 | 1,515 | 1,187 | 125 | 129 | 217 | 207 | 62 | 76 | (155) | (145) | 7,839 |
| **perating assets** | **65,825** | **67,677** | **6,806** | **4,992** | **611** | **624** | **232** | **224** | **273** | **260** | **(204)** | **(216)** | **73,543** |
| ents accounted g the equity | 45 | 103 | | | | | 1 | 1 | 389 | 391 | | | 435 |
| inued ns/Non-current eld for sale | | | | | | | | | | | | | 1,233 |
| ated assets | | | | | | | | | | | | | 10,970 |
| **ssets** | | | | | | | | | | | | | **86,181** |
| **perating es** | 11,737 | 12,810 | 1,782 | 1,382 | 148 | 174 | 184 | 191 | 102 | 110 | (177) | (165) | 13,776 |
| es directly ed with inued ns/Non-current eld for sale | | | | | | | | | | | | | 967 |
| ated liabilities | | | | | | | | | | | | | 44,318 |
| | | | | | | | | | | | | | 27,120 |
| **quity and es** | | | | | | | | | | | | | **86,181** |

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Consolidated Financial Statements Notes To Consolidated Financial Statements

**b) Information by geographical area**

| | Revenues | | | | | | Non-current operating assets | |
|---|---|---|---|---|---|---|---|---|
| | Breakdown by location of operations | | | Breakdown by location of the Group s customers | | | Breakdown by the location of operations | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 |
| | (millions of euros) | | | | | | | |
| Italy | 21,767 | 23,367 | 24,202 | 20,250 | 21,693 | 22,109 | 59,831 | 60,830 |
| Abroad (excluding Italy) | 5,396 | 5,633 | 5,600 | 6,913 | 7,307 | 7,693 | 5,873 | 4,357 |
| **Total** | **27,163** | **29,000** | **29,802** | **27,163** | **29,000** | **29,802** | **65,704** | **65,187** |

**NOTE 45 RELATED PARTY TRANSACTIONS**

At December 31, 2009, there are no significant transactions with related parties, including intragroup transactions, which are non recurring or unusual and / or atypical in nature.

The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the consolidated separate income statements, consolidated statements of financial position and consolidated statements of cash flows.

The figures in the consolidated separate income statements and consolidated statements of cash flows for the years 2009 and 2008 (restated) are compared respectively to those for the years 2008 (restated) and 2007 (restated), while the figures in the consolidated statements of financial position at December 31, 2009 are compared to those at December 31, 2008 (restated).

The **effects on the individual line items of the consolidated separate income statements** for the years 2009, 2008 and 2007 are as follows:

**Consolidated separate income statement line items 2009**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | (millions of euros) | | | | | | | | | |
| Revenues | 27,163 | 204 | 26 | 784 | | | 1,014 | (36) | 978 | 3.6 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Other income | 282 | 3 | | 3 | | | 6 | | 6 | 2.1 |
| Acquisition of goods and services | 11,480 | 91 | 6 | 560 | | | 657 | (126) | 531 | 4.6 |
| Employee benefits expenses | 3,734 | | | 4 | 92 | 15 | 111 | | 111 | 3.0 |
| Finance income | 2,561 | | | 64 | | | 64 | | 64 | 2.5 |
| Finance expenses | 4,731 | 31 | | 248 | | | 279 | | 279 | 5.9 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | (622) | | | (90) | | | (90) | | | |

(*) Other related parties through Directors, Statutory Auditors and key managers.

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**Consolidated separate income statement line items 2008**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Revenues | 29,000 | 186 | 22 | 841 | | | 1,049 | (28) | 1,021 | 3.5 |
| Other income | 336 | 3 | 4 | 5 | | | 12 | | 12 | 3.6 |
| Acquisition of goods and services | 13,120 | 127 | 32 | 579 | | | 738 | (106) | 632 | 4.8 |
| Employee benefits expenses | 4,114 | | | 4 | 94 | 36 | 134 | | 134 | 3.3 |
| Other operating expenses | 1,631 | | | 1 | | | 1 | | 1 | 0.1 |
| Finance income | 3,748 | 2 | | 345 | | | 347 | | 347 | 9.3 |
| Finance expenses | 6,359 | 33 | | 54 | | | 87 | | 87 | 1.4 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | (39) | | | (79) | | | (79) | | | |

(*) Other related parties through Directors, Statutory Auditors and key managers.

**Consolidated separate income statement line items 2007**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint-ventures | Companies controlled by associates and joint-ventures | Other related parties (*) | Pension funds | Key managers | Total Related parties | Transactions of Discontinued Operations | Total Related parties net of Discontinued Operations | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Revenues | 29,802 | 269 | 20 | 206 | | | 495 | (2) | 493 | 1.7 |
| Other income | 383 | 3 | | | | | 3 | | 3 | 0.8 |
| Acquisition of goods and services | 13,442 | 89 | 24 | 175 | | | 288 | (14) | 274 | 2.0 |
| Employees benefits expenses | 3,715 | | | 2 | 84 | 43 | 129 | | 129 | 3.5 |
| Other operating expenses | 2,268 | | | | | | | | | |
| Finance income | 2,912 | 1 | | 83 | | | 84 | | 84 | 2.9 |
| Finance expenses | 5,095 | 38 | | 46 | | | 84 | | 84 | 1.6 |
| Profit (loss) from Discounted Operations/Non-current | (99) | | | (12) | | | (12) | | | |

assets held for sale

(*) Other related parties through Directors, Statutory Auditors and key managers.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

The **effects on the individual line items of the consolidated statements of financial position** at December 31, 2009 and at December 31, 2008 are as follows:

**Consolidated statement of financial position line items at December 31, 2009**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Securities, financial receivables and other non-current financial assets | 1,107 | | | 48 | | | 48 | | 48 | 4.3 |
| Securities other than investments (current assets) | 1,843 | | | | | | | | | |
| Financial receivables and other current financial assets | 1,115 | | | 22 | | | 22 | | 22 | 2.0 |
| Cash and cash equivalents | 5,504 | | | 48 | | | 48 | | 48 | 0.9 |
| Discontinued operations/Non-current assets held for sale of a financial nature | 81 | | | | | | | | | |
| Non-current financial liabilities | 36,752 | 221 | | 254 | | | 475 | | 475 | 1.3 |
| Current financial liabilities | 6,986 | 128 | | 413 | | | 541 | | 541 | 7.7 |
| Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature | 659 | | | | | | | | | |
| Miscellaneous receivables and other non-current assets | 893 | 26 | | | | | 26 | | 26 | 2.9 |
| Trade and miscellaneous receivables and other current assets | 7,462 | 120 | 6 | 163 | | | 289 | 8 | 281 | 3.8 |
| Discontinued operations/Non-current assets held for sale of a non-financial nature | 1,152 | | | 8 | | | 8 | | | |
| Miscellaneous payables and other non-current liabilities | 1,084 | | 23 | 3 | | | 26 | 1 | 25 | 2.3 |
| Trade and miscellaneous payables and other current liabilities | 11,019 | 57 | 4 | 305 | 31 | | 397 | 32 | 365 | 3.3 |
| Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a non-financial nature | 308 | | | 33 | | | 33 | | | |

(*) Other related parties through Directors, Statutory Auditors and key managers.

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**Consolidated statement of financial position line items at December 31, 2008**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Securities, financial receivables and other non-current financial assets | 2,663 | | | 255 | | | 255 | | 255 | 9.6 |
| Securities other than investments (current assets) | 185 | | | | | | | | | |
| Financial receivables and other current financial assets | 491 | 27 | | 14 | | | 41 | | 41 | 8.4 |
| Cash and cash equivalents | 5,416 | 8 | | 1,189 | | | 1,197 | | 1,197 | 22.1 |
| Non-current financial liabilities | 36,527 | 247 | | 608 | | | 855 | | 855 | 2.3 |
| Current financial liabilities | 6,267 | 142 | | 75 | | | 217 | | 217 | 3.5 |
| Miscellaneous receivables and other non-current assets | 694 | 4 | | | | | 4 | | 4 | 0.6 |
| Trade and miscellaneous receivables and other current assets | 8,101 | 113 | 6 | 267 | | | 386 | | 386 | 4.8 |
| Miscellaneous payables and other non-current liabilities | 1,539 | | 23 | 3 | | | 26 | | 26 | 1.7 |
| Trade and miscellaneous payables and other current liabilities | 11,439 | 50 | 58 | 313 | 31 | | 452 | | 452 | 4.0 |

(*) Other related parties through Directors, Statutory Auditors and key managers.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

The **effects on the individual line items of the consolidated statements of cash flows** for the years 2009, 2008 and 2007 are as follows:

**Consolidated statement of cash flows line items 2009**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Purchase of intangible and tangible assets on an accrual basis | 4,543 | 3 | | 19 | | | 22 | (19) | 3 | 0.1 |
| Dividends paid | 1,050 | | | 176 | 1 | | 177 | | 177 | 16.9 |
| Cash flows from (used in) Discontinued operations/non-current assets held for sale | 61 | | | 19 | | | 19 | | | |

(*) Other related parties through Directors, Statutory Auditors and key managers.

**Consolidated statement of cash flows line items 2008**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint ventures | Companies controlled by associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | Total related parties net of Disc.Op | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Purchase of intangible and tangible assets on an accrual basis | 5,040 | 5 | 236 | 37 | | | 278 | (38) | 240 | 4.8 |
| Dividends paid | 1,665 | | | 281 | | | 281 | | 281 | 16.9 |
| Cash flows from (used in) Discontinued operations/non-current assets held for sale | (41) | | 2 | 36 | | | 38 | | | |

(*) Other related parties through Directors, Statutory Auditors and key managers.

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**Consolidated statement of cash flows line items 2007**

| | | Related parties | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Associates and joint-ventures | Companies controlled by associates and joint-ventures | Other related parties (*) | Pension funds | Key managers | Total Related parties | Transactions of Discontinued Operations | Total Related parties net of Discontinued Operations | % incidence on line item |
| | | | | | (millions of euros) | | | | | |
| Purchase of tangible and intangible assets on an accrual basis | 5,031 | 57 | 274 | 82 | | | 413 | (32) | 381 | 7.6 |
| Dividend paid | 2,831 | | | 383 | | | 383 | | 383 | 13.5 |

(*) Other related parties through Directors, Statutory Auditors and key managers.

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**TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES**

The most significant amounts are summarized as follows:

| Consolidated separate income statement line items | 2009 | 2008 | 2007 | Type of contract |
|---|---|---|---|---|
| | (millions of euros) | | | |
| **Revenues** | | | | |
| · ETECSA | 5 | 5 | 6 | International telecommunications services, roaming and technical assistance |
| · LI.SIT. S.p.A. | 25 | 15 | 13 | Information networking of the Lombardy Region social health system |
| · Teleleasing S.p.A. | 167 | 164 | 233 | Sale of equipment as per the 2000 collaboration agreement |
| · NordCom S.p.A. | 2 | 1 | 1 | Supply of telephone services and data network connections, applications software and call center services |
| · Telbios S.p.A. | 2 | 1 | 1 | Supply of telephone services, ADSL lines, sale of equipment and property leases |
| · Telecom Media News S.p.A. | 1 | | | Property leases and telecommunications services |
| · Xtramedia | 1 | | | Connectivity internet service and custom operation |
| · Other minor companies | 1 | | 15 | |
| **Total revenues** | **204** | **186** | **269** | |
| **Other income** | **3** | **3** | **3** | Recovery of costs of personnel on secondment at some company holdings and recovery of costs for services rendered |
| **Acquisition of goods and services** | | | | |
| · ETECSA | 70 | 81 | 6 | International telecommunications services and roaming |
| · NordCom S.p.A. | 2 | 1 | 3 | Software services costs |
| · Telbios | 6 | 6 | 8 | Supply of audio/visual services and products and hardware systems and software for remote medicine offerings |
| · Teleleasing S.p.A. | 8 | 34 | 28 | Purchase of goods sold under leasing arrangements with Telecom Italia customers as per the 2000 collaboration agreement |
| · Tiglio I S.r.l | 3 | 4 | 5 | Lease of properties |
| · Telecom Media News S.p.A. | 2 | | | Press agency services and supply of information content |
| · Other minor companies | | 1 | 39 | |
| **Total acquisition of goods and services** | **91** | **127** | **89** | |
| **Financeincome** | | 2 | 1 | Interest income on loans granted to Aree Urbane S.r.l. |

| | | | | | |
|---|---|---|---|---|---|
| **Financeexpenses** | | | | | |
| · | Teleleasing S.p.A | 30 | 32 | 37 | Interest expenses on finance leases |
| · | Other minor companies | 1 | 1 | 1 | Interest expenses on finance leases |
| **Totalfinance expenses** | | **31** | **33** | **38** | |

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| Consolidated Financial Statements | | | Notes To Consolidated Financial Statements |
|---|---|---|---|
| **Consolidated statement of financial position line items** | **As of December 31, 2009** | **As of December 31, 2008** | **Type of contract** |
| | (millions of euros) | | |
| **Financial receivables and other current assets** | | **27** | Loans with Aree Urbane S.r.l. |
| **Cash and cash equivalents** | | **8** | Treasury account with Teleleasing S.p.A. for 2008 |
| **Non current financial liabilities** | | | |
| · Teleleasing S.p.A. | 220 | 246 | Finance lease |
| · Tiglio I S.r.l. | 1 | 1 | Sale and leaseback transactions |
| **Total non current financial liabilities** | **221** | **247** | |
| **Current financial liabilities** | **128** | **142** | Finance lease and treasury account with Teleleasing S.p.A. |
| **Miscellaneous receivables and other non-current assets** | | | |
| · Aree Urbane S.r.l. | 25 | | Non interest bearing loan to shareholders |
| · LI.SIT S.p.A | 1 | 4 | Receivables from LI.SIT S.p.A. representing the residual share premium paid |
| **Total miscellaneous receivables and other non current assets** | **26** | **4** | |
| **Trade and miscellaneous receivables and other current assets** | | | |
| · ETECSA | 28 | 11 | International telecommunications services, roaming and dividends to be collected |
| · LI.SIT. S.p.A. | 19 | 51 | Information networking of the Lombardy Region social health system |
| · Nord.Com S.p.A. | 1 | 1 | Supply of data network connections and applications software |
| · Telbios S.p.A. | 4 | 1 | Supply of telephone services, ADSL lines, sale of equipment and property leases |
| · Teleleasing S.p.A. | 65 | 48 | Sale of equipment as per the 2000 collaboration agreement |
| · Telecom Media News S.p.A. | 1 | | Telecommunication services and leases of buildings |
| · Xtramedia | 1 | | Internet connectivity services and custom operation |
| · Other minor companies | 1 | 1 | |
| **Total trade and miscellaneous receivables and other current assets** | **120** | **113** | |
| **Trade and miscellaneous payables and other current liabilities** | | | |
| · ETECSA | 7 | 5 | Telecommunications services and roaming |
| · LI.SIT. S.p.A. | 20 | 18 | Deferred financial income on the information networking project of the |

| | | | | |
|---|---|---|---|---|
| | | | | Lombardy Region social health system |
| · | Movenda S.p.A. | 1 | 1 | Development of computer solutions and applications software for SIM card laboratories and mobile handsets and professional services |
| · | Nord.Com S.p.A. | 1 | 2 | Purchase and development of computer solutions |
| · | Telbios S.p.A. | 5 | 5 | Supply of audio/visual services and products and hardware systems and software for remote medicine offerings |
| · | Telecom Media News S.p.A. | 2 | | Services relating to press agencies and supply of information content |
| · | Teleleasing S.p.A. | 19 | 16 | Purchase of goods sold under leasing arrangements with Telecom Italia customers as per the 2000 collaboration agreement |
| · | Tiglio I S.r.l. | 1 | 2 | Lease of properties |
| · | Other minor companies | 1 | 1 | |
| **Total trade and miscellaneous payables and other current liabilities** | | **57** | **50** | |

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| Consolidated Financial Statements | | | | Notes To Consolidated Financial Statements |
|---|---|---|---|---|
| **Consolidated statement of cash flows line items** | **2009** | **2008** | **2007** | **Type of contract** |
| | | **(millions of euros)** | | |
| **Purchase of intangible and tangible assets on an accrual basis** | | | | |
| · Shared Service Center Scrl | | | 53 | Purchases of information and computer and equipment projects |
| · Other minor companies | 3 | 5 | 4 | |
| **Total Purchase of intangible and tangible assets on an accrual basis** | **3** | **5** | **57** | |

**TRANSACTIONS WITH COMPANIES CONTROLLED BY ASSOCIATES AND JOINT VENTURES**

Beginning January 1, 2009, the company Italtel group S.p.A. and all the companies in the Italtel group are no longer considered related parties since the shareholders agreements expired at the end of 2008 and have not been renewed.

The most significant amounts are summarized as follows:

| **Separate consolidated income statement line items** | **2009** | **2008** | **2007** | **Type of contract** |
|---|---|---|---|---|
| | | **(millions of euros)** | | |
| **Revenues** | | | | |
| · Telecom Argentina group | 26 | 20 | 18 | Services of international telecommunications and roaming; service of data and voice; supply of IRU transmission capacity; supply of evolved platforms and technical assistance rendered by Telecom Italia for the development of broadband and the study of Value-Added Services |
| · Italtel group | | 2 | 2 | Supply of telephone and data transmission services, contact center and sale of LAN and MAN networks |
| **Total revenues** | **26** | **22** | **20** | |
| **Other income** | | **4** | | Commercial settlement with the Italtel group |
| **Acquisition of goods and services** | | | | |
| · Telecom Argentina group | 6 | 7 | 7 | International telecommunications services and roaming |
| · Italtel Group | | 25 | 17 | Maintenance contracts and assistance for switching equipment |

| | | | |
|---|---|---|---|
| **Total acquisition of goods and services** | **6** | **32** | **24** |

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| Consolidated Financial Statements | | | Notes To Consolidated Financial Statements |
|---|---|---|---|
| **Consolidated statement of financial position line items** | **As of December 31, 2009** | **As of December 31, 2008** | **Type of contract** |
| | **(millions of euros)** | | |
| **Trade and miscellaneous receivables and other current assets** | | | |
| · Telecom Argentina group | 6 | 5 | Services of international telecommunications and roaming; service of data and voice; supply of IRU transmission capacity; supply of evolved platforms and technical assistance rendered by Telecom Italia for the development of broadband and the study of Value-Added Services |
| · Italtel group | | 1 | Supply and maintenance of equipment, telephone and data transmission services |
| **Total trade and miscellaneous receivables and other current assets** | **6** | **6** | |
| **Miscellaneous payables and other non current liabilities** | **23** | **23** | Medium/long-term portion of deferred income for the supply of IRU transmission capacity to the Telecom Argentina group |
| **Trade and miscellaneous payables and other current liabilities** | | | |
| · Telecom Argentina group | 4 | 3 | International telecommunications services, roaming and the short-term portion of deferred income for the supply of IRU transmission capacity |
| · Italtel group | | 55 | Supply contracts connected with investment and operating activities |
| **Total trade and miscellaneous payables and other current liabilities** | **4** | **58** | |

| **Consolidated statement of cash flows line items** | **2009** | **2008** | **2007** | **Type of contract** |
|---|---|---|---|---|
| | **(millions of euros)** | | | |
| **Purchase of intangible and tangible assets on an accrual basis** | | **236** | **274** | These refer to the purchase of telephone equipment from the Italtel group |

At December 31, 2009, the Telecom Italia Group has provided guarantees on behalf of associates and companies controlled by associates for a total of 16 million euros (31 million euros at 12/31/2008), of which, on behalf of: Aree Urbane S.r.l. 11 million euros (11 million euros at 12/31/2008), ETECSA 3 million euros (3 million euros at 12/31/2008) and Telecom Media News S.p.A. 2 million euros. At 12/31/2008, 16 million euros had been provided as guarantees on behalf of the Italtel group, which is no longer a related party, and 1 million euros on behalf

of other minor companies. Furthermore, weak comfort letters have also been provided for a total of 34 million euros (138 million euros at 12/31/2008) on behalf of ETECSA in respect of loans from suppliers.

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**TRANSACTIONS WITH OTHER RELATED PARTIES (through Directors, Statutory Auditors and Key Managers)**

On February 27, 2009, following the resignation of Gianni Mion (through whom the companies of the Edizione group and the Sintonia group were related parties of Telecom Italia), Stefano Cao was co-opted as director (through whom only the companies of the Sintonia group are related parties of Telecom Italia); the shareholders meeting held on April 8, 2009 later confirmed this appointment.

On December 22, 2009, the director Stefano Cao resigned from office. Consequently, the income statement transactions reported in the following tables include the income statement transactions with respect to the Edizione group from January 1, to March 31, 2009 and the Sintonia group from January 1, to December 22, 2009.

The most significant amounts are summarized as follows:

**Consolidated separate income statement line items**

| | 2009 | 2008 | 2007 | Type of contract |
|---|---|---|---|---|
| | | (millions of euros) | | |
| **Revenues** | | | | |
| · ATM group | 1 | | | Supply of personalized services and network business data |
| · Edizione group | 7 | 9 | 7 | Supply of telephone and data transmission services outsourced managed with dedicated assistance |
| · Generali group | 53 | 51 | 19 | Supply of telephone and data transmission services, peripheral data networks, connections, storage and telecommunications products and services for foreign holdings |
| · Intesa SanPaolo group | 121 | 128 | 39 | Supply of telephone and data transmission services and ICT services and LAN network management |
| · Mediobanca group | 6 | 7 | 5 | Supply of telephone and MPLS data network services and marketing of data and VoIP devices |
| · Telefónica group | 596 | 637 | 103 | Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software |
| · Other minor companies and companies that are no longer related parties | | 9 | 33 | |
| **Total revenues** | **784** | **841** | **206** | |
| **Other income** | **3** | **5** | | Damage compensation from the Generali group |

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**Consolidated Financial Statements** **Notes To Consolidated Financial Statements**

| | 2009 | 2008 (millions of euros) | 2007 | Type of contract |
|---|---|---|---|---|
| **Acquisition of goods and services** | | | | |
| · China Unicom group | 2 | | | International telecommunication services and roaming services |
| · Edizione group | 8 | 6 | 2 | Sponsorships, commissions for the sale of prepaid telephone cards, Fees for laying telephone cables along expressways and TV and internet rights connected with sports events |
| · Generali group | 25 | 25 | 15 | Insurance premiums and property leases |
| · Intesa SanPaolo group | 16 | 20 | 8 | Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards |
| · Mediobanca group | 2 | 2 | 1 | Credit recovery activities and factoring commissions |
| · Telefónica group | 507 | 500 | 80 | Interconnection, roaming services, site sharing, co-billing agreements, broadband linesharing and unbundling |
| · Other, no longer related parties | | 26 | 68 | |
| **Total acquisition of goods and services** | **560** | **579** | **174** | |
| **Employee benefits expenses** | **4** | **4** | **2** | Non-obligatory employee insurance with the Generali group |
| **Other operating expenses** | | **1** | | Commercial settlement with the Intesa SanPaolo group |
| **Finance income** | | | | |
| · Intesa SanPaolo group | 33 | 281 | 72 | Bank accounts, deposits and hedging derivatives |
| · Mediobanca group | 31 | 64 | 11 | Receivables for the sale of securities and hedging derivatives |
| **Total Finance Income** | **64** | **345** | **83** | |
| **Finance expenses** | | | | |
| · Intesa SanPaolo group | 29 | 38 | 16 | Term Loan Facility, Revolving Credit Facility, hedging derivatives, loans finance lease liabilities |
| · Mediobanca group | 219 | 16 | 30 | Term Loan Facility and Revolving Credit Facility and hedging derivatives |
| **Total Finance expenses** | **248** | **54** | **46** | |
| **Profit (loss) from Discontinued Operations/Non-current assets held for sale** | | | | |
| · Telefónica group | (90) | (78) | (12) | Interconnection and roaming services of HanseNet GmbH (included in Discontinued Operations) |
| · Mediobanca group | | (1) | | Incidental expenses with the Mediobanca group for the sale of the Liberty Surf group |

| | | | |
|---|---|---|---|
| **Total profit (loss) from Discontinued Operations/Non-current assets held for sale** | **(90)** | **(79)** | **(12)** |

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| Consolidated Financial Statements | | | Notes To Consolidated Financial Statements |
|---|---|---|---|
| **Consolidated statement of financial position line items** | **As of December 31, 2009** | **As of December 31, 2008** | **Type of contract** |
| | (millions of euros) | | |
| **Securities, financial receivables and other non-current financial assets** | | | |
| · Intesa SanPaolo group | 43 | 225 | Hedging derivatives |
| · Mediobanca group | 5 | 30 | Hedging derivatives |
| **Total securities, financial receivables and other non-current financial assets** | **48** | **255** | |
| **Financial receivables and other current financial assets** | | | |
| · Intesa SanPaolo group | 8 | 13 | Hedging derivatives |
| · Mediobanca group | 14 | 1 | Hedging derivatives |
| **Total financial receivables and other current financial assets** | **22** | **14** | |
| **Cash and cash equivalents** | | | |
| · Intesa SanPaolo group | 48 | 696 | Bank accounts and deposits |
| · Mediobanca group | | 493 | Repurchase agreements |
| **Total cash and cash equivalents** | **48** | **1,189** | |
| **Non-current financial liabilities** | | | |
| · Intesa SanPaolo group | 192 | 478 | Revolving Credit Facility, hedging derivatives, loans and financial lease liabilities |
| · Mediobanca group | 62 | 130 | Revolving Credit Facility and hedging derivatives |
| **Total non-current financial liabilities** | **254** | **608** | |
| **Current financial liabilities** | | | |
| · Intesa SanPaolo group | 344 | 74 | Term Loan Facility, bank accounts, hedging derivatives, finance lease liabilities and other financial payables |
| · Mediobanca group | 69 | 1 | Term Loan Facility and hedging derivatives |
| **Total current financial liabilities** | **413** | **75** | |
| **Other statement of financial position line items** | | | |
| **Trade and miscellaneous receivable and other current assets** | | | |
| · China Unicom group | 1 | | Supply of international telecommunications services and roaming |
| · Generali group | 26 | 21 | Supply of telephone and data transmission services, peripheral data networks, connections, storage, applications services and supply of telecommunications products and services for foreign holdings |

| | | | | |
|---|---|---|---|---|
| · | Intesa SanPaolo group | 51 | 178 | Supply of telephone services, data transmission and international services, ICT services, LAN network management and applications platform |
| · | Mediobanca group | 2 | 1 | Supply of telephone and MPLS data network services and marketing of data and VoIP devices |
| · | Edizione group | | 4 | Supply of telephone and data transmission services, outsourced managed with dedicated assistance |
| · | Telefónica group | 83 | 63 | Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software |
| **Total trade and miscellaneous receivables and other current assets** | | **163** | **267** | |

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| Consolidated Financial Statements | | | Notes To Consolidated Financial Statements |
|---|---|---|---|
| **Consolidated statement of financial position line items** | **As of December 31, 2009** | **As of December 31, 2008** | **Type of contract** |
| | **(millions of euros)** | | |
| **Discontinued operations/Non-current assets held for sale of a non-financial nature** | **8** | | Interconnection services and roaming of HanseNet GmbH (included in Discontinued Operations) to the Telefónica group |
| **Miscellaneous payables and other non-current liabilities** | **3** | **3** | Deferred income relating to the supply of IRU transmission capacity to the Telefónica group |
| **Trade and miscellaneous payables and other current liabilities** | | | |
| · China Unicom group | 1 | | International telecommunications services and roaming |
| · Intesa SanPaolo group | 213 | 232 | Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards |
| · Mediobanca group | 2 | 2 | Credit recovery activities and factoring commissions |
| · Edizione group | | 9 | Fees for laying telephone cables along expressways, television and internet rights connected with sports events |
| · Telefónica group | 89 | 70 | Interconnection services, roaming, site sharing, co-billing agreements, broadband line sharing and unbundling |
| **Total trade and miscellaneous payables and other current liabilities** | **305** | **313** | |
| **Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a non-financial nature** | **33** | | Interconnection services and roaming of HanseNet GmbH (included in Discontinued Operations) to the Telefónica group |

| **Consolidated statement of cash flows line items** | **2009** | **2008** | **2007** | **Type of contract** |
|---|---|---|---|---|
| | **(millions of euros)** | | | |
| **Purchase of intangible and tangible assets on accrual basis** | | | | |
| Telefónica group | 19 | 36 | 4 | Capitalization of costs connected with unbundling in Germany |
| Other minor companies and companies that are no longer related parties | | 1 | 78 | |
| **Total purchase of intangible and tangible assets on an accrual basis** | **19** | **37** | **82** | |

**Indefeasible Right of Use (IRU) between the Telecom Group and the Telefónica group**

In the month of November 2009, the Telecom Italia Group (through its subsidiary Latin American Nautilus Ltd.) and the Telefónica group (through its subsidiary TIWS  Telefónica International Wholesale Services) signed twin Capacity Sale Agreements for the reciprocal sale of lambdas (transmission capacity streams at 10 Gbit/s) on their submarine networks operating between North and South America.

These are multi-year contracts for the reciprocal exchange of up to nine lambdas by interconnecting the two ring-configured networks that both companies operate in South America. From an economic standpoint, the transactions have been agreed at the current market terms generally applied in normal sales transactions.

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For the year 2009, in which Latin American Nautilus Ltd. sold three lambdas with a linear configuration on both sides of the continent, the transaction was worth US$69.6 million (or 47 million euros). As consideration, from a technical and economic standpoint, the counterpart buyer sold equivalent transmission capacity.

The contract is in the form of an IRU (Indefeasible Right of Use) for use over a period of 15 years.

Specific order forms regulate in detail the technical and contractual terms of each IRU as well as the procedures for operating and maintaining the networks which each party commits to guarantee according to current practices.

Moreover, the two Capacity Sale Agreements ensure that the benefits are evenly distributed between the contracting parties and that the economic and legal conditions applied follow reciprocal and equivalent principles.

**Sale of HanseNet Telekommunikation GmbH to the Telefonica group**

On November 5, 2009, the board of directors approved the sale of HanseNet Telekommunikation GmbH, a wholly-owned subsidiary of Telecom Italia S.p.A. through the holding in Telecom Italia Deutschland Holding GmbH. HanseNet is an operator focused on the retail market of broadband services in Germany.

Assisted by Morgan Stanley Bank International Limited (Milan Branch), the process was activated for the sale of the company and involved a number of potential buyers. At the end of this process, negotiations were finalized with Telefónica S.A., a related party of Telecom Italia through the board members Cesar Alierta and Julio Linares, respectively, Chairman and Chief Executive Officer of Telefónica S.A., which, in turn, has a 46.18% stake in Telco S.p.A., the principal shareholder of Telecom Italia which currently holds 22.45% of the ordinary share capital of the Company.

The consideration on the sale negotiated by management of the Company is based on an enterprise value of 900 million euros.

The sale of HanseNet constitutes, by nature and value, a transaction of strategic proportions subject to prior approval of the board as set forth in the Code of Self-discipline of the Company. However, the Rules of Conduct regarding transactions entered into with related parties in force in Telecom Italia state that, in the event of transactions with related parties which require the board s approval, the presentation of the proposal to the board should be subject to an opinion expressing agreement by the committee for internal control and corporate governance, composed only of non executive directors, the majority of whom are independent, of whom at least one director is from the minority list. The current members of the committee are Paolo Baratta (who is the Chairman of the committee, in addition to being the lead independent director), Roland Berger, Jean Paul Fitoussi and Aldo Minucci.

The committee (with the director Roland Berger absent) examined the proposal for the sale to Telefónica assisted by Barclays Capital, Investment banking division of Barclays Bank PLC, a financial advisor selected by the committee which declared the non-existence of economic and financial relations with the Telecom Italia Group and with the buyer such as to compromise its independence in the role of advisor. The analysis conducted by the committee covered the observance of the procedural and fundamental correctness of the criteria in the construction of the deal. To this end, the committee concluded that neither the decision to carry out the sale nor the process for the selection of the buyer and the manner of negotiations have been influenced by Telefónica s position as a related party. Furthermore, the fairness of the economic conditions of the agreement was confirmed by Barclays Capital. Barclays Capital solely carried out a financial valuation of the consideration of the sale, confirming that it is within the valuation range calculated using a number of commonly applied methodologies in similar situations. In accordance with its engagement, Barclays Capital did not take part in the negotiations and in the sales process in general, providing its financial advice exclusively to the committee and receiving for its services a fixed fee, not linked to the favorable outcome of the transaction, in line with market practice.

The committee expressed its opinion agreeing with the sales process and with the presentation of the proposal to the board of directors which (with the directors Cesar Alierta, Julio Linares and Gaetano Miccichè absent) approved the proposal with a majority vote of those attending the meeting.

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The sale was finalized on February 16, 2010.

**TRANSACTIONS WITH PENSION FUNDS**

The most significant amounts are summarized as follows:

| Consolidated separate income statement line items | 2009 | 2008 | 2007 | Type of contract |
|---|---|---|---|---|
| | | (millions of euros) | | |
| **Employee benefits expenses** | | | | |
| · Fontedir | 14 | 15 | 15 | Contributions to pension funds |
| · Telemaco | 74 | 72 | 62 | Contributions to pension funds |
| · Other Italian and foreign pension funds | 4 | 7 | 7 | Contributions to pension funds |
| **Total employee benefits expenses** | **92** | **94** | **84** | |

| Consolidated statement of financial position line items | As of December 31, 2009 | As of December 31, 2008 | Type of contract |
|---|---|---|---|
| | (millions of euros) | | |
| **Trade and miscellaneous payables and other current liabilities** | | | |
| · Fontedir | 5 | 5 | Payables for contributions to pension funds |
| · Telemaco | 25 | 24 | Payables for contributions to pension funds |
| · Other Italian and foreign pension funds | 1 | 2 | Payables for contributions to pension funds |
| **Total trade and miscellaneous payables and other current liabilities** | **31** | **31** | |

***

**Remuneration to key managers**

In 2009, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to 15.4 million euros (35.6 million euros in 2008), analyzed as follows:

| | 2009 | 2008 |
|---|---|---|
| | (millions of euros) | |
| Short-term remuneration | 14.2(1) | 13.0(3) |
| Long-term remuneration | | 0.9(4) |
| Employment termination benefit incentives | | 20.9(5) |
| Share-based payments(*) | 1.2(2) | 0.8(6) |
| | **15.4** | **35.6** |

(1) Of which 0.6 million euros recorded by the subsidiary TI Media S.p.A.

(2) Of which 0.04 million euros recorded by the subsidiary TI Media S.p.A.

(3) Of which 0.7 million euros recorded by the subsidiary TI Media S.p.A.

(4) Of which 0.1 million euros recorded by the subsidiary TI Media S.p.A.

(5) Of which 1.9 million euros recorded by the subsidiary TI Media S.p.A.

(6) Of which 0.02 million euros recorded by the subsidiary TI Media S.p.A.

(*) This is the fair value of rights at December 31, under the Telecom Italia incentive plans (PSG and TOP 2008).

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Key managers, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including directors, are the following:

| | |
|---|---|
| **Directors:** | |
| Gabriele Galateri di Genola | Chairman of Telecom Italia S.p.A. |
| Franco Bernabè | Chief Executive Officer of Telecom Italia S.p.A. |
| **Managers:** | |
| Paolo Annunziato(1) | Head of Public Affairs |
| Oscar Cicchetti | Head of Technology & Operations(2)<br>Head of Domestic Market Operations(5) |
| Stefano Ciurli(3) | Head of Purchasing |
| Antonino Cusimano | Head of Corporate Legal Affairs |
| Luca Luciani | Director Chairman of Tim Brasil(4) |
| Andrea Mangoni(2) | Head of Administration, Finance and Control<br>Head of International Business<br>Chairman of Telecom Italia Sparkle S.p.A. |
| Antonio Migliardi | Head of Human Resources and Organization |
| Marco Patuano | Head of Domestic Market Operations(2)<br>Head of Administration, Finance and Control(5) |
| Stefano Pileri(5) | Head of Technology & Operations |
| Germanio Spreafico(6) | Head of Purchasing |
| Giovanni Stella | Deputy Chairman of Telecom Italia Media S.p.A.<br>Head of Media Business Unit<br>Head of Telecom Italia S.p.A. Disposals(7) |

(1) to February 26, 2009.

(2) from November 6, 2009.

(3) from March 16, 2009.

(4) from January 19, 2009.

(5) to November 5, 2009.

(6) to March 15, 2009.

(7) to December 31, 2009.

**NOTE 46 STOCK OPTION AND PERFORMANCE SHARE GRANTING PLANS OF THE TELECOM ITALIA GROUP**

The stock option and performance share granting plans in effect at December 31, 2009 and at December 31, 2008 are the following, respectively:

- options (including those at one time granted by Telecom Italia S.p.A. before its merger by incorporation in Olivetti S.p.A. renamed Telecom Italia S.p.A. and by TIM S.p.A., later merged in Telecom Italia S.p.A.) which give, or have given, the right to subscribe to Telecom Italia S.p.A. ordinary shares;

- free Telecom Italia ordinary share grants based on the effective period of participation in the plan by each of the grantees and the degree to which they have reached pre-fixed performance targets.

These plans are used by the Telecom Italia for retention purposes and as a long-term incentive for the managers and employees of the Group.

The stock option and performance share granting plans of Telecom Italia are described in the following paragraphs.

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***Stock options plans Telecom Italia S.p.A.***

In describing the stock option plans, so as to render the representation of the options homogeneous with that of the subscribable shares and also facilitate their measurement based on the relevant subscription prices, the concept of equivalent options has been used. This refers to a quantity of options equal to the number of ordinary shares of the current Telecom Italia S.p.A. that can be subscribed. In this manner, the weighted average prices and the exercise prices indicated are consistent and directly comparable among each other.

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The principal features of the stock option plans existing at December 31, 2008 and 2009 are summarized below.

| tock Option Plans (Date of Shareholders meeting) | BoD Grant Date (Grantees) | Lot | Exchange Ratio(1) | Exercise Price of Options(2) (euros) | Exercise Price of Equivalent Options(3) (euros) | Original Grant No. of Options | Original Grant No. of Equivalent Options | Exercise period from | Exercise period to | Equivalent Options Outstanding at 12/31/2008 | Equivalent Options Outstanding at 12/31/200 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **008 Top Plan** | | | | | | | | | | | |
| /14/2008) | **4/15/2008** (Executive Directors) | single | 1 | 1.95 | 1.95 | 11,400,000 | 11,400,000 | 4/15/11 | 4/15/14 | 11,400,000 | 11,400,00 |
| **002 Top Plan** | | | | | | | | | | | |
| /12/2001 - 5/26/2003) | **2/13/2002** | 2° | 3.300871 | 9.203 | 2.788052 | 3,540,000 | 11,685,083 | 2/18/04 | 2/18/09 | 5,050,330 | |
| | (16 Top Managers) | 3° | 3.300871 | 9.203 | 2.788052 | 4,720,000 | 15,580,111 | 2/18/05 | 2/18/10 | 8,318,193 | 5,941,56 |
| **002 Plan granted in March** | | | | | | | | | | | |
| 2/15/1998 - 8/10/2000 - 5/3/2001 - 5/26/2003) | **3/26/2002** (Managers of the Group) | 2° | 3.300871 | 9.665 | 2.928015 | 8,987,400 | 29,666,248 | 3/3/04 | 3/3/09 | 13,119,891 | |
| | | 3° | 3.300871 | 9.665 | 2.928015 | 11,983,200 | 39,554,997 | 3/3/05 | 3/3/10 | 18,717,132 | 16,929,39 |
| **002 Plan granted in August** | | | | | | | | | | | |
| 2/15/1998 - 8/10/2000 - 5/3/2001 - 5/26/2003 | **8/1/2002** (Managers of the Group) | 2° | 3.300871 | 7.952 | 2.409061 | 252,000 | 831,819 | 3/3/04 | 3/3/09 | 168,343 | |
| | | 3° | 3.300871 | 7.952 | 2.409061 | 336,000 | 1,109,093 | 3/3/05 | 3/3/10 | 224,457 | 224,45 |
| **003-2005 Plan** | | | | | | | | | | | |
| 0/10/2000- 4/7/2005) | **5/6/2002** (Managers and employees of the Group) | 2° | 1.730000 | 5.070 | 2.930636 | 16,685,666 | 28,866,202 | 5/24/04 | 5/31/09 | 863,096 | |
| | | 3° | 1.730000 | 5.070 | 2.930636 | 16,685,667 | 28,866,204 | 12/22/04 | 5/31/10 | 1,212,557 | 1,212,55 |
| **otal** | | | | | | | | | | **59,073,999** | **35,707,97** |

(1) Number of Telecom Italia ordinary shares subscribable for the exercise of one option.
(2) Original exercise price determined for the exercise of one option.
(3) Subscription price of one Telecom Italia S.p.A. ordinary share coming from the exercise of one equivalent option.

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- *Stock Option 2002 Top Plan* : options not subject to reaching performance targets.

- *Stock Option 2002 Plan* : options not subject to reaching performance targets. Priority given to Group management who are already grantees of the Stock Option 2000 Plan.

- *Stock Option Plans 2003-2005* : options not subject to reaching performance targets. Priority given to Group management who are already grantees of TIM s Stock Option 2001-2003 Plan and Supplementary 2001-2003 Plan.

- *Stock Option 2008 Top Plan* : options granted to the chairman and the CEO, which can be exercised at the end of the vesting period, for a period of three years starting from the grant date, on condition that the grantees remain as directors of the Company up to the date of the shareholders meeting called to approve the financial statements for the year 2010 and except in the case of pre-set assumptions for the early vesting of part of the options granted.

The exercisability of 75% of the options granted is not subject to performance targets while the remaining 25% of the options granted are subject to the relative performance of the Total Shareholder Return (TSR) of Telecom Italia compared to the Total Shareholder Return of the 10 major companies (in terms of their weight in the Index) in the DJ STOXX TLC Index.

At the moment of vesting, the following can be exercised:

- 100% of the options subject to performance indicators if the TSR of Telecom Italia reaches the third quartile of the panel of reference;

- 50% of the options subject to performance indicators if the TSR of Telecom Italia reaches the mid-point of the panel of reference.

The options subject to performance indicators will lapse if the TSR of Telecom Italia does not reach the mid-point of the panel of reference.

The number of options exercisable will be ascertained at the end of the performance measuring period.

The exercisability of the options is valid for a period of three years starting from the end of the vesting period (or at the early vesting date). Options that are not exercised by end of the exercisability period will lapse. It is understood that, if the directors continue their relationship with the Company, for a year from the end of the vesting period, the grantees have open availability up to a maximum of 50% of the shares purchasable by exercising the exercisable options.

The fair value of the options of the 2008 Top Plan was determined overall at the grant date (April 15, 2008) in an amount of 2,593 thousand euros and is recognized in equity over the vesting period of the options with a corresponding entry to Employee benefits expenses ; the amount charged to income in 2009 was 864 thousand euros.

The fair value of the options has been calculating by applying the Montecarlo method and using the following calculation parameters:

- *exercise price*: 1.95 euros per share;

- *current price*: in relation to the performance targets set in the Plan, the share market prices have been considered at the grant date for Telecom Italia (1.40 euros per share (p.s.)) and for other leading companies in the telecommunications sector (Vodafone: 1.88 euros p.s., Telefonica: 18.6 euros p.s., France Telecom: 2.2 euros p.s., Deutsche Telekom: 11.19 euros p.s., British Telecom: 2.68 euros p.s., KPN: 11.38 euros p.s., Telia Sonera: 4.76 euros p.s., Telenor: 12.39 euros p.s. and OTE: 18.26 euros p.s.);

- *volatility*: in relation to the performance targets set in the Plan, the volatility values of the shares were considered for Telecom Italia (33.02%) and for the above other leading companies in the telecommunications sector; at the measurement date, the implicit volatility of the relevant shares was assumed to be that observed on options negotiated for expirations of one year and where not available the volatility of the options closest to that date; finally, in the absence of options for that period, the volatility values were assumed to be the historical volatility of one year;

- *option period*: three years for the vesting period (from April 15, 2008 to April 15, 2011) and three years for the exercise period (from April 15, 2011 to April 15, 2014);

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- *expected dividends*: dividends were assumed to be constant over the life of the options on the basis of the latest dividends paid (0.08 euros per Telecom Italia ordinary share);

- *risk-free interest rate*: this is considered the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the life of the option (3.7485% for 6 years).

During 2008 and 2009, no stock options were exercised.

The market prices of Telecom Italia ordinary shares at December 31, 2009 and 2008 were respectively 1.0920 euros and 1.1492 euros, thus below the exercise price of the equivalent options outstanding and exercisable at those dates.

Aggregate movements in all Telecom Italia stock option plans in 2008 and 2009 are presented in the following table.

| | Number of Equivalent Options | Weighted Average Price per Equivalent Option (euros) |
|---|---|---|
| **Options outstanding at December 31, 2007** | **124,108,961** | **3.08** |
| *Of which: Options exercisable at December 31, 2007* | *124,108,961* | *3.08* |
| Granted during the year | 11,400,000 | 1.95 |
| Exercised during the year | | |
| Forfeit(1) during the year | | |
| Lapsed(2) during the year | (12,469,872) | 2.93 |
| Expired(3) during the year | (63,965,090) | 3.25 |
| **Options outstanding at December 31, 2008** | **59,073,999** | **2.70** |
| *Of which: Options exercisable at December 31, 2008* | *47,673,999* | *2.88* |
| Granted during the year | | |
| Exercised during the year | | |
| Forfeit(1) during the year | | |
| Lapsed(2) during the year | (4,612,956) | 2.86 |
| Expired(3) during the year | (18,753,072) | 2.89 |
| **Options outstanding at December 31, 2009** | **35,707,971** | **2.59** |
| *Of which: Options exercisable at December 31, 2009* | *24,307,971* | *2.89* |

(1) These equivalent options are forfeit since they could no longer be exercised as a result of failure to reach performance targets.

(2) These options lapsed since they could no longer be exercised as a result of the termination of employment and/or for other reasons (e.g. relinquished by the interested party).

(3) These equivalent options expired since they were not exercised during the stated period.

The following tables present, with reference to the Telecom Italia stock option plans existing at December 31, 2009 and 2008, grouped by the exercise price range, the residual weighted average life and the weighted average grant price of the equivalent options:

| Price Range | Equivalent Options Outstanding at December 31, 2009 | | | Equivalent Options Exercisable at December 31, 2009 | |
|---|---|---|---|---|---|
| (euros) | Equivalent Options | Residual Weighted Average Life (years) | Weighted Average Grant Price (euros) | Equivalent Options | Weighted Average Grant Price (euros) |
| 1.95 | 11,400,000 | 4.29 | 1.95 | | |
| 2.41 | 224,457 | 0.17 | 2.41 | 224,457 | 2.41 |
| 2.78-2.94 | 24,083,514 | 0.18 | 2.89 | 24,083,514 | 2.89 |
| | **35,707,971** | | | **24,307,971** | |

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| Price Range | Equivalent Options Outstanding at December 31, 2008 | | | Equivalent Options Exercisable at December 31, 2008 | |
|---|---|---|---|---|---|
| (euros) | Equivalent Options | Residual Weighted Average Life (years) | Weighted Average Grant Price (euros) | Equivalent Options | Weighted Average Grant Price (euros) |
| 1.95 | 11,400,000 | 5.29 | 1.95 | | |
| 2.41 | 392,800 | 0.74 | 2.41 | 392,800 | 2.41 |
| 2.78-2.94 | 47,281,199 | 0.80 | 2.89 | 47,281,199 | 2.89 |
| | **59,073,999** | | | **47,673,999** | |

***Performance Share Granting Plan Telecom Italia S.p.A.***

The Telecom Italia board of directors in its meeting held on August 8, 2008 passed a resolution to implement the plan to grant free Telecom Italia ordinary shares under the Performance Share Granting plan approved by the shareholders meeting held on April 16, 2007. The plan grants recipients (top management of Telecom Italia or its subsidiaries) the right to a pre-set maximum and variable number of free shares, according to the period of each single grantee s effective participation in the plan and the extent to which the pre-set share performance targets, reported below, have been reached (reference should be made to the specific prospectus published on August 9, 2008 and the communications published on September 16, 2008 and October 1, 2009).

The grantees of the Plan include, among others, the executive directors of companies controlled by Telecom Italia S.p.A.

The situation at December 31, 2009 shows that the number of shares which could effectively be granted based on the rights granted is equal to 11,224,600 (of which 9,714,000 by Telecom Italia employees and 1,510,600 by delegated directors of subsidiaries).

For each Recipient, the maximum number of ordinary shares under the Full Grant was determined, on the basis of the recipient s organizational role, as a ratio between a multiple of the fixed annual compensation and the ordinary share trading price on March 5, 2008.

The Plan covers a period of three years, from July 1, 2008 to June 30, 2011.

As for the Performance Targets, the Plan rewards the profit and equity return of investors, which is measured using the Total Shareholder Return of Telecom Italia (**TI TSR**) during the Incentive Period. In particular, the number of shares vested is calculated as the percentage of the full grant on the basis of the degree to which the following targets have been reached:

- an absolute TI TSR target: 20% of the full grant is conditional on this target;

- a relative TI TSR target: 80% of the full grant is conditional on this target.

The TI TSR calculation conventionally assumes that the initial value is the share trading price on March 5, 2008 (the day before the board of directors meeting which approved the 2008-2010 strategic guidelines). The absolute TI TSR target value was set in the amount of 40% in relation to the entire three-year period of the Plan July 1, 2008 June 30, 2011.

The relative TI TSR is an indicator of performance compared to market, represented by the variance of the TI TSR compared to the TSR of the Dow Jones Stoxx Index TLC sector (DJTLC Bloomberg ticker SXKP). In relation to the three-year Plan, the ordinary shares can be granted starting from when the Index TSR is reached (corresponding to the vesting of shares equal to 10% of the full grant). For higher variance values, the number of shares vested grows until it reaches 80% of the full grant, in correspondence to a variance equal to or higher than +50%.

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The fair value of the rights of the Performance Share Granting Plan had originally been determined as a total of 2,593 thousand euros. During 2009, new rights were granted and others were forfeit; consequently the fair value at December 31, 2009 equal to 2,551 thousand euros (of which 2,253 thousand euros relates to employees of Telecom Italia) includes 506 thousand euros referring to the new rights issued in October 2009 and 2,045 thousand referring to the remaining rights previously granted and forfeit will be recognized in equity over the vesting period of the rights with a corresponding entry to:

- employees benefits expenses , for 2,253 thousand euros, in respect of employees of Telecom Italia (the charge to the 2009 income statement is 655 thousand euros);

- investments in subsidiaries , in respect of employees of those subsidiaries, for 298 thousand euros (of which 123 thousand euros represents the charge for 2009).

The unit fair value of the rights granted under the management incentive 2008 Performance Share Granting plan was determined at the grant dates of September 8, 2008 and September 16, 2008 by applying the Montecarlo method and using the following calculation parameters at each grant date:

- *exercise price*: equal to zero;

- *current price*: in compliance with regulations, for Telecom Italia this is represented by the share trading price on March 5, 2008 equal to 1.615 euros; for the Dow Jones Stoxx Index TLC sector this is represented by the average of the closing prices in June 2008 equal to 281.65 euros;

- *TI volatility*: historical volatility values of one year were assumed, taken over the three previous years, and, respectively, 34.94% for the rights granted September 8, 2008 and 35.36% for the rights granted September 16, 2008;

- *option period*: three years from June 30, 2008 to June 30, 2011;

- *expected dividends*: dividends were assumed to be constant over the life of the rights granted on the basis of the latest dividends paid on Telecom Italia ordinary shares (0.08 euros per share);

- *risk-free interest rate*: this is considered the rate of the government securities of the Federal Republic of Germany (the market benchmark for transactions in euros) with maturities commensurate with the life of the rights granted, respectively, 3.879% for the rights granted September 8, 2008 and 3.685% for the rights granted September 16, 2008.

The unit fair value of the rights granted under the management incentive 2008 Performance Share Granting plan was calculated at the grant date of October 1, 2009 by applying the Montecarlo method and using the following calculation parameters:

- *exercise price*: equal to zero;

- *current price*: in compliance with regulations, for Telecom Italia this is represented by the share trading price in June 2009 equal to 0.96168 euros; for the Dow Jones Stoxx Index TLC sector this is represented by the average of the closing prices in June 2009 equal to 214.01318 euros;

- *TI volatility*: historical volatility values of one year were assumed, taken over the two previous years equal to 50.029%;

- *option period*: two years from June 30, 2009 to June 30, 2011;

- *expected dividends*: dividends were assumed to be constant over the life of the rights granted on the basis of the latest dividends paid on Telecom Italia ordinary shares (0.05 euros per share);

- *risk-free interest rate*: this is considered the rate of the government securities of the Federal Republic of Germany (the market benchmark for transactions in euros) with maturities commensurate with the life of the rights granted, 1.222%.

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## NOTE 47 OTHER INFORMATION

### a) Exchange rates used to translate the financial statements of foreign operations(*)

| (Local Currency against 1 euro) | Year-end exchange rates (statements of financial position) | | | Average exchange rates for the year (income statements and statements of cash flows) | | |
|---|---|---|---|---|---|---|
| | 12/31/2009 | 12/31/2008 | 12/31/2007 | Year 2009 | Year 2008 | Year 2007 |
| **Europe** | | | | | | |
| BGN Bulgarian Lev | 1.95580 | 1.95580 | | 1.95580 | 1.95580 | |
| CZK Czech Koruna | 26.47300 | 26.87500 | | 26.43714 | 24.95849 | |
| HUF Hungarian Forint | 270.42000 | 266.70000 | | 280.31935 | 251.64456 | |
| CHF Swiss Franc | 1.48360 | 1.48500 | 1.65470 | 1.50996 | 1.58686 | 1.64280 |
| TRY Turkish Lira | 2.15470 | 2.14880 | 1.71700 | 2.16256 | 1.90850 | 1.78647 |
| GBP Pound Sterling | 0.88810 | 0.95250 | 0.73335 | 0.89132 | 0.79744 | 0.68462 |
| RON New Romanian Leu | 4.23630 | 4.02250 | | 4.23826 | 3.68489 | |
| **North America** | | | | | | |
| USD U.S. Dollar | 1.44060 | 1.39170 | 1.47210 | 1.39442 | 1.47053 | 1.37072 |
| **Latin America** | | | | | | |
| VEF Venezuelan Bolivar | 3.09340 | 2.98840 | | 2.99425 | 3.15768 | |
| BOB Bolivian Boliviano | 10.11300 | 9.76720 | 11.22480 | 9.79228 | 10.65382 | 10.74977 |
| PEN Peruvian Nuevo Sol | 4.16189 | 4.37155 | 4.40894 | 4.19072 | 4.28810 | 4.28485 |
| ARS Argentinean Peso | 5.46185 | 4.80444 | 4.63693 | 5.20788 | 4.64170 | 4.27143 |
| CLP Chilean Peso | 730.74400 | 888.08600 | 733.03200 | 776.67296 | 763.53892 | 714.96824 |
| COP Colombian Peso | 2,943.76000 | 3,124.48000 | 2,969.59000 | 2,990.09031 | 2,872.07969 | 2,841.70996 |
| MXN Mexican Peso | 18.92230 | 19.23330 | 16.05470 | 18.79029 | 16.30980 | 14.97945 |
| BRL Brazilian Real | 2.50837 | 3.25240 | 2.60753 | 2.76933 | 2.67864 | 2.66397 |
| **Other countries** | | | | | | |
| ILS Israeli Shekel | 5.45452 | 5.27800 | 5.66514 | 5.46601 | 5.25740 | 5.63061 |

(*) Source: data processed by the European Central Bank, Reuters and major Central Banks.

### b) Research and development

In 2009, expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (millions of euros) | |
| Research and development costs expensed during year | 74 | 79 | 102 |
| Development costs capitalized | 768 | 623 | 729 |

| | | | |
|---|---|---|---|
| **Total research and development costs (expensed and capitalized)** | **842** | **702** | **831** |

Moreover, in the consolidated separate income statement for the year 2009 amortization charges are recorded for development costs, capitalized during the year and in prior years, for an amount of 1,012 million euros.

In 2008, the scope of research and development activity was extended to include all projects for hardware and software development for systems used by the companies of the Telecom Italia Group to manage both sales

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packages and customer activities (Business Support Systems) and network operations (Operational Support Systems, Security and other IT services). Such change in the scope of research and development activities did not have any effect on the accounting policies applied to research and development expenditures which are treated as described in Note *Accounting Policies* .

**c) Operating leases**

**Revenue related**

The Group has signed contracts for the lease of direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators.

At December 31, 2009, the amount of lease installments receivable on non-cancelable lease contracts is equal to 6 million euros (5 million euros at December 31, 2008) and all of them are due within one year.

**Expense related**

The Group has signed lease contracts for buildings (for periods from 6 to 9 years) and lines. At December 31, 2009, the amount of lease installments payable on non-cancelable lease contracts is the following:

| | At December 31, 2009 | At December 31, 2008 |
|---|---|---|
| | (millions of euros) | |
| Within 1 year | 417 | 412 |
| From 2 to 5 years | 597 | 697 |
| After 5 years | 68 | 170 |
| **Total** | **1,082** | **1,279** |

**NOTE 48 EVENTS SUBSEQUENT TO DECEMBER 31, 2009**

**Sale of HanseNet Telekommunikation GmbH**

On February 16, 2010, the Telecom Italia Group finalized the sale to Telefonica, through the subsidiary Telefonica Deutschland GmbH, of its entire investment held by Telecom Italia Group in HanseNet Telekommunikation GmbH, an operator focused on the retail market of broadband services in Germany.

The estimated economic impact of the sale, based on an enterprise value of 900 million euros, was recorded in the consolidated financial statements at December 31, 2009.

Specifically, the transaction resulted in a negative impact on the consolidated result of 597 million euros including the goodwill impairment loss on the company for 558 million euros.

**Credit lines**

On January 28, 2010, Telecom Italia repaid its syndicated credit line at maturity (denominated Term Loan 2010) for 1,500,000,000 euros of principal and 19,872,291.67 euros of interest.

On February 12, 2010, Telecom Italia signed a new syndicated revolving line with leading credit institutions for 1,250,000,000 euros for a three-year period. The market conditions provide for:

- a margin on the Euribor in relation to the Company s rating (the current BBB rating corresponds to a margin of 130 bps);
- commitment fees equal to 40% of the margin (currently equal to 52 bps);
- utilization fees equal to 25 bps for drawing down the line between 1/3 and 2/3 of the total and 50 bps for draw downs higher than 2/3 of the total.

The credit line represents a back-up line which increases the Group s financial flexibility.

**Bond issue**

On February 10, 2010, Telecom Italia S.p.A. issued bonds in the European market in the principal amount of 1,250 million euros, with an annual coupon of 5.25% and maturing on February 10, 2022.

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**Bond repayments**

On January 1, 2010, the convertible bonds issued by Telecom Italia S.p.A., 1.5% coupon payable annually, for 574 million euros, reached maturity and were repaid.

On January 15, 2010, the bonds issued by Telecom Italia Capital S.A., 4% coupon payable semiannually, for USD 1,250 million, reached maturity and were repaid.

**Acquisition of voting rights by holders of Tim Participações S.A. preferred shares**

Tim Participações S.A. s results for 2009 for the third consecutive year will not enable the company to pay the minimum dividends established by Brazilian law (6% of share capital for this category of shares) to the holders of preferred shares. As a result, these shareholders will have acquired voting rights starting from the next shareholders meeting of the company. The controlling shareholder Tim Brasil Serviços e Participações S.A. will keep the majority vote in the shareholders meetings (66.27% of share capital).

**Telecom Italia Media share capital increase**

On April 8, 2010, the Telecom Italia Media extraordinary shareholders meeting met and passed the following resolutions:

a. cancellation of the par value of ordinary and savings shares;

b. a reverse share split of ordinary and savings shares in a ratio of one ordinary or savings share for every 10 ordinary or savings shares held;

c. necessary amendment to the bylaws in order for the measures and the characteristics of the savings shares rights to remain unchanged following the resolution in a) and b) above;

d. share capital increase for 240 million euros through the issue of ordinary shares to be offered on an optional basis to holders of ordinary and savings shares revoking the mandate at one time conferred by the shareholders meeting to the board of directors to increase share capital up to a maximum of 10 million euros giving mandate to the board to establish in the imminence of the rights offering, its other characteristics, including the subscription price, the maximum number of shares to be issued and the option ratio.

The option rights which are not exercised during the offering period ex art. 2441, paragraph 1 of the Italian Civil Code will be offered to the stock market ex art. 2441, paragraph 3 of the Italian Civil Code. As announced, Telecom Italia, the controlling shareholder of Telecom Italia Media with a 69.2% direct and indirect equity investment, has pledged its support to the initiative by assuming an irrevocable commitment to subscribe to its portion of the capital increase, in addition to any residual portion that remains unallocated at the end of the offer on the stock

market, ex art. 2441, paragraph 3 of the Italian Civil Code.

The capital increase is expected to take place after all the necessary authorizations and conditions have been met and subject to market conditions during the first half of 2010.

The capital increase is part of the 2010 2012 Business Plan approved by the Telecom Italia Media board of directors on February 25, 2010 and its aim is to reinforce the asset structure and support the development of the company in the extremely dynamic market in which it operates. In particular, the proceeds from the subscription to the shares will be fully assigned for the repayment of a part of the existing financing extended by Telecom Italia and Telecom Italia Finance.

Finally, in order to allow the above mentioned actions to be carried out, the extraordinary shareholders meeting has approved some amendments to the bylaws (art. 5 Capital Measures and art. 6 Shares ).

**Telecom Italia Sparkle**

With reference to the ongoing criminal investigation involving Telecom Italia Sparkle, please see Note *Contingent liabilities, other information, commitments and guarantees* .

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## NOTE 49 LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders meeting if different than the percentage holding of share capital, and which companies hold the investment.

**Telecom Italia Group**

| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | | | | | | |
| TELECOM ITALIA S.p.A. | MILAN (ITALY) | EUR | 10,673,865,180 | | | |
| **Subsidiaries consolidated line-by-line** | | | | | | |
| **DOMESTIC BUSINESS UNIT** | | | | | | |
| ELETTRA TLC S.p.A. | ROME | EUR | 10,329,200 | 70.0000 | | TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| (services rendered in connection with submarine cable systems for telecommunications) | (ITALY) | | | | | |
| I.T. TELECOM S.r.l. (software development and software consulting) | POMEZIA | EUR | 7,000,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| | (ROME-ITALY) | | | | | |
| LATIN AMERICAN NAUTILUS ARGENTINA S.A. | BUENOS AIRES | ARS | 9,998,000 | 95.0000 | | LATIN AMERICAN NAUTILUS Ltd |
| (installation and maintenance of submarine cable systems) | (ARGENTINA) | | | 5.0000 | | TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| LATIN AMERICAN NAUTILUS BOLIVIA SRL | LA PAZ | BOB | 6,730,600 | 99.9985 | | TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| (installation and maintenance of submarine cable systems) | (BOLIVIA) | | | 0.0015 | | LATIN AMERICAN NAUTILUS USA Inc. |
| LATIN AMERICAN NAUTILUS BRASIL Ltda | RIO DE JANEIRO | BRL | 6,850,598 | 99.9999 | | LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda |
| (installation and maintenance of submarine cable systems) | (BRAZIL) | | | 0.0001 | | LATIN AMERICAN NAUTILUS USA Inc. |

| | | | | | |
|---|---|---|---|---|---|
| LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda<br>(holding company) | RIO DE JANEIRO<br>(BRAZIL) | BRL | 8,844,866 | 99.9999<br>0.0001 | LATIN AMERICAN NAUTILUS Ltd<br>TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| LATIN AMERICAN NAUTILUS CHILE S.A.<br>(installation and maintenance of submarine cable systems) | SANTIAGO<br>(CHILE) | CLP | 13,082,839,000 | 100.0000 | LATIN AMERICAN NAUTILUS Ltd |
| LATIN AMERICAN NAUTILUS COLOMBIA Ltda<br>(installation and maintenance of submarine cable systems) | BOGOTA<br>(COLOMBIA) | COP | 240,225,000 | 100.0000 | LATIN AMERICAN NAUTILUS Ltd |
| LATIN AMERICAN NAUTILUS Ltd<br>(installation and maintenance of submarine cable systems) | DUBLIN<br>(IRELAND) | USD | 1,000,000 | 100.0000 | TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| LATIN AMERICAN NAUTILUS MEXICO S.A.<br>(installation and maintenance of submarine cable systems) | MEXICO D.F.<br>(MEXICO) | MXN | 100,000 | 99.9999<br>0.0001 | LATIN AMERICAN NAUTILUS Ltd<br>LATIN AMERICAN NAUTILUS USA Inc. |

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| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems) | PANAMA | USD | 10,000 | 100.0000 | | LATIN AMERICAN NAUTILUS Ltd |
| LATIN AMERICAN NAUTILUS PERU S.A. (installation and maintenance of submarine cable systems) | LIMA (PERÙ) | PEN | 56,865,179 | 100.0000 | | LATIN AMERICAN NAUTILUS Ltd |
| LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems) | FLORIDA (USA) | USD | 10,000 | 100.0000 | | LATIN AMERICAN NAUTILUS USA Inc. |
| LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems) | VIRGIN ISLANDS (USA) | USD | 10,000 | 100.0000 | | LATIN AMERICAN NAUTILUS ltd |
| LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems) | FLORIDA (USA) | USD | 20,000 | 100.0000 | | LATIN AMERICAN NAUTILUS ltd |
| LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems) | CARACAS (VENEZUELA) | VEF | 981,457 | 100.0000 | | LATIN AMERICAN NAUTILUS ltd |
| LOQUENDO S.p.A. (research, development and marketing of technologies and equipment regarding voice synthesis recognition and/or interaction) | TURIN (ITALY) | EUR | 3,573,741 | 99.9846 | | TELECOM ITALIA S.p.A. |
| MATRIX S.p.A. (internet services) | MILAN (ITALY) | EUR | 2,100,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| MED-1 (NETHERLANDS) B.V. (holding company) | AMSTERDAM (HOLLAND) | EUR | 18,200 | 100.0000 | | MED-1 SUBMARINE CABLES Ltd |
| MED-1 ITALY S.r.l. (installation and management submarine cable systems in Italian seas) | ROME (ITALY) | EUR | 548,477 | 100.0000 | | MED-1 (NETHERLANDS) B.V. |
| MED-1 SUBMARINE CABLES Ltd | RAMAT GAN (ISRAEL) | ILS | 55,886,866 | 99.9123 | | TELECOM ITALIA SPARKLE S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| (installation and management of cable Lev) | | | | | |
| MEDITERRANEAN NAUTILUS BV (holding company) | AMSTERDAM (HOLLAND) | EUR | 18,003 | 100.0000 | MEDITERRANEAN NAUTILUS Ltd |
| MEDITERRANEAN NAUTILUS GREECE S.A. | ATHENS (GREECE) | EUR | 111,600 | 100.0000 | MEDITERRANEAN NAUTILUS B.V. |
| (installation and maintenance of submarine cable systems) | | | | | |
| MEDITERRANEAN NAUTILUS ISRAEL Ltd | RAMAT GAN (ISRAEL) | ILS | 1,000 | 100.0000 | MEDITERRANEAN NAUTILUS B.V. |
| (TLC services, installation and management of submarine cable systems) | | | | | |
| MEDITERRANEAN NAUTILUS ITALY S.p.A. | ROME (ITALY) | EUR | 3,100,000 | 100.0000 | MEDITERRANEAN NAUTILUS B.V. |
| (installation and management of submarine cable systems) | | | | | |

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|---|---|---|---|---|---|---|
| MEDITERRANEAN NAUTILUS Ltd<br><br>(TLC services, installation and management of submarine cable systems) | DUBLIN (IRELAND) | USD | 153,259 | 100.0000 | | TELECOM ITALIA SPARKLE LUXEMBOURG S.A. |
| MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI<br><br>(telecommunications services) | ISTANBUL (TURKEY) | TRY | 350,000 | 99.9988<br>0.0003<br>0.0003<br>0.0003<br>0.0003 | | MEDITERRANEAN NAUTILUS B.V.<br>MEDITERRANEAN NAUTILUS Ltd<br>MEDITERRANEAN NAUTILUS ITALY S.p.A.<br>MEDITERRANEAN NAUTILUS ISRAEL Ltd<br>MEDITERRANEAN NAUTILUS GREECE S.A. |
| OLIVETTI MULTISERVICES S.p.A.<br><br>(real estate management) | MILAN (ITALY) | EUR | 20.337.161 | 100.0000 | | TELECOM ITALIA S.p.A. |
| PATH.NET S.p.A.<br><br>(networking systems and telecommunications) | ROME (ITALY) | EUR | 25,800,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| TECNOSERVIZI MOBILI S.r.l.<br><br>(management of movable assets) | ROME (ITALY) | EUR | 26,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES- SCARL<br><br>(internal auditing for the Telecom Italia Group) | MILAN (ITALY) | EUR | 2,750,000 | 81.8182<br>18.1818 | | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA MEDIA S.p.A. |
| TELECOM ITALIA NETHERLANDS B.V.<br><br>(telecommunications services) | AMSTERDAM (HOLLAND) | EUR | 18,200 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| TELECOM ITALIA SAN MARINO S.p.A.<br><br>(telecommunications services in San Marino) | ROVERETA-FALCIANO REPUBLIC OF SAN MARINO | EUR | 1,808,000 | 99.9999<br>0.0001 | | TELECOM ITALIA SPARKLE S.p.A.<br>TELECOM ITALIA S.p.A. |
| TELECOM ITALIA SPAIN SL UNIPERSONAL | MADRID (SPAIN) | EUR | 2,003,096 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| (telecommunications services) | | | | | |
| TELECOM ITALIA SPARKLE BULGARIA EOOD | SOFIA (BULGARIA) | BGN | 5,860 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | |
| TELECOM ITALIA SPARKLE CZECH S.R.O. | PRAGUE (CZECH REPUBLIC) | CZK | 6,720,000 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | |
| TELECOM ITALIA SPARKLE EST S.R.L. | BUCHAREST (RUMANIA) | RON | 88,560 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | |
| TELECOM ITALIA SPARKLE HUNGARY K.F.T. | BUDAPEST (HUNGARY) | HUF | 2,860,000 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | |
| TELECOM ITALIA SPARKLE LUXEMBOURG S.A. | LUXEMBOURG (LUXEMBOURG) | EUR | 41,625,000 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (holding company) | | | | | |
| TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC. | NEW YORK (USA) | USD | 15,550,000 | 100.0000 | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications and promotional services) | | | | | |
| TELECOM ITALIA SPARKLE S.p.A. | ROME (ITALY) | EUR | 200,000,000 | 100.0000 | TELECOM ITALIA S.p.A. |
| (public and private telecommunication services management) | | | | | |

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| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD | SINGAPORE | USD | 5,121,120 | 99.9999 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | 0.0001 | | TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC. |
| TELECOM ITALIA SPARKLE SLOVAKIA S.R.O. | BRATISLAVA (SLOVAKIA) | EUR | 300,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | | |
| TELECONTACT CENTER S.p.A | NAPLES (ITALY) | EUR | 770,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (telemarketing services) | | | | | | |
| TELEFONIA MOBILE SAMMARINESE S.p.A. | BORGO MAGGIORE REPUBLIC OF SAN MARINO | EUR | 78,000 | 51.0000 | | TELECOM ITALIA SAN MARINO S.p.A. |
| (mobile telephony services) | | | | | | |
| TELENERGIA S.r.l. | ROME (ITALY) | EUR | 50,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (import, export, purchase, sale and exchange of electrical energy) | | | | | | |
| TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. | TURIN (ITALY) | EUR | 390,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (manufacturing and sale of systems for encrypted crypto s telecommunications) | | | | | | |
| TI BELGIUM S.P.R.L. B.V.B.A | BRUSSELS (BELGIUM) | EUR | 3,000,000 | 99.9999 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | | |
| TI GERMANY GmbH | FRANKFURT (GERMANY) | EUR | 25,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | | |
| TI SWITZERLAND GmbH | ZURICH (SWITZERLAND) | CHF | 2,000,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | | |
| TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GMBH | VIENNA (AUSTRIA) | EUR | 2,735,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| (telecommunications services) | | | | | | |
| TI UNITED KINGDOM Ltd | LONDON (UK) | GBP | 4,150,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |

| | | | | | | |
|---|---|---|---|---|---|---|
| (telecommunications services) | | | | | | |
| TIS France S.A.S.<br>(installation and maintenance of telecommunication services for fixed network and relating activities) | PARIS (FRANCE) | EUR | 18,295,000 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| TMI TELEMEDIA INTERNATIONAL Ltd<br>(telecommunications services) | LONDON (UK) | EUR | 3,983,254 | 100.0000 | | TELECOM ITALIA SPARKLE S.p.A. |
| TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA<br>(telecommunications services) | SAO PAULO (BRAZIL) | BRL | 8,909,639 | 100.0000 | | TMI TELEMEDIA INTERNATIONAL Ltd |
| **BRAZIL BUSINESS UNIT** | | | | | | |
| INTELIG TELECOMUNICAÇÕES LTDA<br>(telecommunications services) | RIO DE JANEIRO (BRAZIL) | BRL | 3,279,157,267 | 100.0000 | | TIM PARTICIPAÇÕES S.A. |
| TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.<br>(holding company) | RIO DE JANEIRO (BRAZIL) | BRL | 6,067,040,293 | 100.0000 | | TELECOM ITALIA INTERNATIONAL N.V. |
| TIM CELULAR S.A.<br>(mobile telephony operator) | SAO PAULO (BRAZIL) | BRL | 7,731,647,115 | 100.0000 | | TIM PARTICIPAÇÕES S.A. |
| TIM PARTICIPAÇÕES S.A.<br>(holding company) | RIO DE JANEIRO (BRAZIL) | BRL | 8,149,096,024 | 66.2686 | 77.1435 | TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. |

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|---|---|---|---|---|---|---|
| **MEDIA BUSINESS UNIT** | | | | | | |
| BEIGUA S.r.l.<br>(purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting) | ROME (ITALY) | EUR | 51,480 | 51.0004 | | TELECOM ITALIA MEDIA BROADCASTING S.r.l. |
| MTV ITALIA S.r.l.<br>(services in the field of radio and TV broadcasting. production and sale of radio, TV and cinema programs) | ROME (ITALY) | EUR | 12,151,928 | 51.0000 | | TELECOM ITALIA MEDIA S.p.A. |
| MTV PUBBLICITA S.r.l.<br>(advertising agency) | MILAN (ITALY) | EUR | 10,400 | 100.0000 | | MTV ITALIA S.r.l. |
| TELECOM ITALIA MEDIA BROADCASTING S.r.l.<br>(purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting) | ROME (ITALY) | EUR | 15,000,000 | 100.0000 | | TELECOM ITALIA MEDIA S.p.A. |
| TELECOM ITALIA MEDIA S.p.A.<br>(development and sale of products in the field of the publishing industry, gathering and sale of advertising, management of all activities concerning the treatment and handling of information) | ROME (ITALY) | EUR | 100,510,259 | 65.7080<br>2.2471 | 66.7962<br>2.2846 | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA FINANCE S.A. |
| **OLIVETTI BUSINESS UNIT** | | | | | | |
| ADVALSO S.p.A.<br>(planning, production and servicing of telecommunication services and product) | IVREA (TURIN-ITALY) | EUR | 500,000 | 100.0000 | | OLIVETTI S.p.A. |
| OLIVETTI DEUTSCHLAND GmbH<br>(sale of office equipment and holding company) | NURNBERG (GERMANY) | EUR | 25,600,000 | 100.0000 | | OLIVETTI INTERNATIONAL B.V. (in liquidation) |
| OLIVETTI ENGINEERING S.A.<br>(product research and development based on ink-jet technology) | YVERDON LES BAINS (SWITZERLAND) | CHF | 100,000 | 100.0000 | | OLIVETTI I-JET S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| OLIVETTI ESPANA S.A.<br><br>(sale and maintenance of office equipment, consulting and telematic network management) | BARCELONA (SPAIN) | EUR | 1,229,309 | 99.9912 | OLIVETTI INTERNATIONAL B.V. (in liquidation) |
| OLIVETTI FRANCE S.A.<br><br>(sale of office equipment and software) | PUTEAUX (FRANCE) | EUR | 2,200,000 | 100.0000 | OLIVETTI S.p.A. |
| OLIVETTI I-JET S.p.A.<br><br>(manufacture and sale of products and accessories for office equipment) | ARNAD (AOSTA-ITALY) | EUR | 15,000,000 | 100.0000 | OLIVETTI S.p.A. |
| OLIVETTI INTERNATIONAL B.V. (in liquidation)<br><br>(holding company) | AMSTERDAM (HOLLAND) | EUR | 355,027,092 | 100.0000 | OLIVETTI S.p.A. |
| OLIVETTI S.p.A.<br><br>(manufacture and sale of products and accessories for office equipment) | IVREA (TURIN-ITALY) | EUR | 83,500,000 | 100.0000 | TELECOM ITALIA S.p.A. |

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| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| OLIVETTI UK Ltd. | MILTON KEYNES (UK) | GBP | 6,295,712 | 100.0000 | | OLIVETTI INTERNATIONAL B.V. (in liquidation) |
| (sale of office equipment) | | | | | | |
| TIESSE S.c.p.A. | ROME (ITALY) | EUR | 103,292 | 61.0000 | | OLIVETTI S.p.A. |
| (installation and assistance for electronic, computer, telematic and telecommunication equipment) | | | | | | |
| **OTHER OPERATIONS** | | | | | | |
| BBEYOND B.V. | HOOFDDORP (HOLLAND) | EUR | 18,000 | 100.0000 | | BBNED N.V. |
| (telecommunications services) | | | | | | |
| BBNED N.V. | HOOFDDORP (HOLLAND) | EUR | 82,430,000 | 99.9939 | | TELECOM ITALIA INTERNATIONAL N.V. |
| (telecommunications services) | | | | 0.0061 | | BBNED N.V. |
| BRASILCO S.r.l. (in liquidation) | MILAN (ITALY) | EUR | 10,000 | 100.0000 | | TELECOM ITALIA INTERNATIONAL N.V. |
| (holding company) | | | | | | |
| EMSA Servizi S.p.A. (in liquidation) | ROME (ITALY) | EUR | 5,000,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (real estate services management) | | | | | | |
| ETI EURO TELECOM INTERNATIONAL N.V. | AMSTERDAM (HOLLAND) | EUR | 50,050 | 100.0000 | | ICH INTERNATIONAL COMMUNICATION HOLDING N.V. |
| (holding company) | | | | | | |
| H.R. SERVICES S.r.l. | L AQUILA (ITALY) | EUR | 10,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (planning, development and supply of training services) | | | | | | |
| ICH INTERNATIONAL COMMUNICATION HOLDING N.V. | AMSTERDAM (HOLLAND) | EUR | 50,000 | 100.0000 | | TELECOM ITALIA INTERNATIONAL N.V. |
| (holding company) | | | | | | |
| INTERNLNET B.V. | NIJMEGEN (HOLLAND) | EUR | 39,960 | 100.0000 | | BBNED N.V. |
| (internet services) | | | | | | |
| NETESI S.p.A. (in liquidation) | MILAN (ITALY) | EUR | 434,715 | 100.0000 | | TELECOM ITALIA S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| (telecommunications and multimedia services) | | | | | |
| OFI CONSULTING S.r.l. | IVREA (TURIN-ITALY) | EUR | 95,000 | 100.0000 | TELECOM ITALIA S.p.A. |
| (administrative consulting) | | | | | |
| OLIVETTI GESTIONI IVREA S.r.l. | IVREA (TURIN-ITALY) | EUR | 100,000 | 100.0000 | TELECOM ITALIA S.p.A. |
| (real estate services) | | | | | |
| OLIVETTI HOLDING B.V. | AMSTERDAM (HOLLAND) | EUR | 15,882,770 | 100.0000 | TELECOM ITALIA FINANCE S.A. |
| (finance company) | | | | | |
| PURPLE TULIP B.V. | AMSTERDAM (HOLLAND) | EUR | 18,000 | 100.0000 | TELECOM ITALIA INTERNATIONAL N.V. |
| (holding company) | | | | | |
| SAIAT SOCIETA ATTIVITA INTERMEDIE AUSILIARIE TLC P.A. | TURIN (ITALY) | EUR | 35,745,120 | 100.0000 | TELECOM ITALIA S.p.A. |
| (finance company) | | | | | |
| SHARED SERVICE CENTER S.r.l. | ROME (ITALY) | EUR | 1,756,612 | 100.0000 | TELECOM ITALIA S.p.A. |
| (planning, design, installation running of computer services) | | | | | |
| TECO SOFT ARGENTINA S.A. (in liquidation) | BUENOS AIRES (ARGENTINA) | ARS | 12,000 | 100.0000 | TELECOM ITALIA S.p.A. |
| (design. development and sale of software) | | | | | |
| TELECOM ITALIA CAPITAL S.A. (finance company) | LUXEMBOURG (LUXEMBOURG) | EUR | 2,336,000 | 100.0000 | TELECOM ITALIA S.p.A. |

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| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| TELECOM ITALIA DEUTSCHLAND HOLDING GmbH | HAMBURG (GERMANY) | EUR | 25,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (holding company) | | | | | | |
| TELECOM ITALIA FINANCE S.A. | LUXEMBOURG (LUXEMBOURG) | EUR | 542,090,241 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (finance company) | | | | | | |
| TELECOM ITALIA INTERNATIONAL N.V. | AMSTERDAM (HOLLAND) | EUR | 2,399,483,000 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (holding company) | | | | | | |
| TELECOM ITALIA LATAM S.A. | SAO PAULO (BRAZIL) | BRL | 118,925,804 | 100.0000 | | TELECOM ITALIA S.p.A. |
| (telecommunications and promotional services) | | | | | | |
| TIAUDIT COMPLIANCE LATAM S.A. | RIO DE JANEIRO (BRAZIL) | BRL | 1,500,000 | 69.9996<br>30.0002 | | TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES SCARL<br>TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. |
| (internal auditing) | | | | | | |
| **Subsidiaries consolidated held for sale** | | | | | | |
| HANSENET TELEKOMMUNIKATION GmbH | HAMBURG (GERMANY) | EUR | 91,596,500 | 100.0000 | | TELECOM ITALIA DEUTSCHLAND HOLDING GmbH |
| (telecommunications services) | | | | | | |
| **Associated and joint ventures accounted for using the equity method** | | | | | | |
| AREE URBANE S.r.l. | MILAN (ITALY) | EUR | 100,000 | 31.6500<br>0.9700 | | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA MEDIA S.p.A. |
| (real estate) | | | | | | |
| ASSCOM INSURANCE BROKERS S.r.l. | MILAN (ITALY) | EUR | 100,000 | 20.0000 | | TELECOM ITALIA S.p.A. |
| (insurance mediation) | | | | | | |
| BALTEA S.r.l. | IVREA (TURIN-ITALY) | EUR | 100,000 | 49.0000 | | OLIVETTI S.p.A. |
| (manufacture and sale of office equipment and computer and telecommunications services) | | | | | | |
| BROAD BAND SERVICE S.p.A. (in liquidation) | SERRAVALLE REPUBLIC OF SAN MARINO | EUR | 77,000 | 20.0000 | | TELECOM ITALIA SAN MARINO S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| (production and sales of multimedia services) | | | | | |
| CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (in liquidation) | NAPLES (ITALY) | EUR | 127,500 | 20.0000 | TELECOM ITALIA S.p.A. |
| (professional training) | | | | | |
| CONSORZIO E O (in liquidation) | ROME (ITALY) | EUR | 15,482 | 50.0000 | TELECOM ITALIA S.p.A. |
| (professional training) | | | | | |
| CONSORZIO TEMA MOBILITY | TURIN (ITALY) | EUR | 850,000 | 50.0000 | TELECOM ITALIA S.p.A. |
| (marketing and development of the products jointly realized by Telecom Italia and Magneti Marelli) | | | | | |
| CONSORZIO TURISTEL (in liquidation) | ROME (ITALY) | EUR | 77,460 | 33.3333 | TELECOM ITALIA S.p.A. |
| (online tourism services) | | | | | |
| CRIAI S.c.r.l.-CONS. CAMPANO DI RICERCA PER L INFORMATICA E L AUTOMAZIONE INDUSTRIALE | NAPLES (ITALY) | EUR | 589,258 | 47.9327 | TELECOM ITALIA S.p.A. |
| (delivery of services in the IT and industrial automation fields) | | | | | |
| Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA | HAVANA (CUBA) | USD | 1,749,313,080 | 27.0030 | TELECOM ITALIA INTERNATIONAL N.V. |
| (telecommunications services) | | | | | |

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**Consolidated Financial Statements** **Notes To Consolidated Financial Statements**

| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| IM.SER S.r.l.<br>(real estate management) | MILAN (ITALY) | EUR | 21,165 | 40.0000 | | TELECOM ITALIA S.p.A. |
| LI.SIT. LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A.<br>(information, TLC services and products for the local public administration) | MILAN (ITALY) | EUR | 6,500,000 | 24.2000 | | TELECOM ITALIA S.p.A. |
| MOVENDA S.p.A.<br>(technological platforms for the development of mobile Internet services) | ROME (ITALY) | EUR | 133,333 | 24.9998 | | TELECOM ITALIA FINANCE SA |
| NORDCOM S.p.A.<br>(application service provider) | MILAN (ITALY) | EUR | 5,000,000 | 42.0000 | | TELECOM ITALIA S.p.A. |
| OCN-TRADING S.r.l. (in liquidation)<br>(trading company) | IVREA (TURIN-ITALY) | EUR | 40,800 | 40.0000 | | TELECOM ITALIA S.p.A. |
| SOFORA TELECOMUNICACIONES S.A.<br>(holding company) | BUENOS AIRES (ARGENTINA) | ARS | 439,702,000 | 32.5000<br>17.5000 | | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA INTERNATIONAL N.V. |
| TELBIOS S.p.A.<br>(technological services supporting the health sector) | MILAN (ITALY) | EUR | 983,100 | 34.4708 | | TELECOM ITALIA S.p.A. |
| TELECOM MEDIA NEWS S.p.A.<br>(multimedia journalistic information) | ROME (ITALY) | EUR | 1,120,000 | 40.0000 | | TELECOM ITALIA MEDIA S.p.A. |
| TELELEASING LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A.<br>(financial leasing of real estate and other assets) | MILAN (ITALY) | EUR | 9,500,000 | 20.0000 | | SAIAT SOCIETA ATTIVITA INTERMEDIE AUSILIARIE TLC P.A. |
| TIGLIO I S.r.l.<br>(real estate management) | MILAN (ITALY) | EUR | 5,255,704 | 45.6991<br>2.1027 | | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA MEDIA S.p.A. |
| TIGLIO II S.r.l. | MILAN (ITALY) | EUR | 10,000 | 49.4700 | | TELECOM ITALIA S.p.A. |

| | | | | | |
|---|---|---|---|---|---|
| (real estate management) | | | | | |
| XTRA MEDIA SERVICES B.V. | NIJMEGEN (HOLLAND | EUR | 18,000 | 49.0000 | INTERNLNET B.V. |
| (internet services) | | | | | |
| **Other significant investments** | | | | | |
| CEFRIEL S.r.l. | MILAN (ITALY) | EUR | 100,350 | 11.6000 | TELECOM ITALIA S.p.A. |
| (professional training) | | | | | |
| CELL-TEL S.p.A. | SCARMAGNO (TURIN-ITALY) | EUR | 500,000 | 15.0000 | OLIVETTI S.p.A. |
| (telecommunications equipment, plant and systems) | | | | | |
| FIN.PRIV. S.r.l. | MILAN (ITALY) | EUR | 20,000 | 14.2900 | TELECOM ITALIA S.p.A. |
| (finance company) | | | | | |
| IFM INFOMASTER S.p.A. | GENOA (ITALY) | EUR | 161,765 | 12.0000 | TELECOM ITALIA FINANCE S.A. |
| (planning and development of call center solutions) | | | | | |
| INNOVIS S.p.A. | IVREA (TURIN-ITALY) | EUR | 325,000 | 15.0000 | OLIVETTI S.p.A. |
| (computer, online and telecommunications equipments and services) | | | | | |
| ITALBIZ.COM Inc. | DELAWARE (USA) | USD | 4,720 | 19.5000 | TELECOM ITALIA MEDIA S.p.A. |
| (Internet services) | | | | | |
| ITALTEL GROUP S.p.A. | SETTIMO MILANESE MILAN | EUR | 115,459,344 | 19.3700 | TELECOM ITALIA FINANCE S.A. |
| (holding company) | | | | | |

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| Name | Head Office | Currency | Share Capital | % ownership | % of voting rights | Held by |
|---|---|---|---|---|---|---|
| MIX S.r.l. | MILAN (ITALY) | EUR | 99,000 | 10.8500 | | TELECOM ITALIA S.p.A. |
| (internet services provider) | | | | | | |
| NEW SATELLITE RADIO S.r.l. | MILAN (ITALY) | EUR | 10,000 | 12.7200 | | TELECOM ITALIA S.p.A. |
| (production and realization of radio-tv channel and program) | | | | | | |
| PIEDMONT INTERNATIONAL S.A. | LUXEMBOURG (LUXEMBOURG) | USD | 10,507,500 | 17.1300 | 10.3000 | TELECOM ITALIA FINANCE S.A. |
| (finance company) | | | | | | |