TELECOM ITALIA S P A
Form 6-K
April 15, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF APRIL 2011

Telecom Italia S.p.A.

(Translation of registrant s name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. YES ¨ NO x

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

The present document has been translated from the document issued and filed in Italy, from the Italian into the English language solely for the convenience of international readers. Despite all the efforts devoted to this translation, certain errors, omissions or approximations may subsist. Telecom Italia, its representatives and employees decline all responsibility in this regard.

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, which reflect management's current views with respect to certain future events, trends and financial performance. 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 of our control, that could significantly affect expected results of future events.

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 2011-2013 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 both in Italy and abroad;

- 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.

Annual Report

2010

Contents

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

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

Letter to the Shareholders

To the Shareholders,

The restructuring and re-launching process undertaken by Telecom Italia in 2008 has proceeded relentlessly, despite the fact that it coincided with one of the stormiest periods in the international economy since the Second World War with a decisive and prolonged decline in earnings in the most advanced economies, a loss of jobs, and the downscaling of investments and consumption. By paying scrupulous attention to governance in order to protect the interests of all stakeholders and thanks to a corporate culture in which responsibility and transparency are of prime importance, our Group has given concrete proof that it is, and wants to be, a reliable and credible company. A healthy company, not only in terms of its accounts but also in its behavior, very much aware of the needs of all its stakeholders, open to dialog and to collaboration with national and international institutions, with the regulatory authorities and its social partners. The direction we have followed so far is the result of this clear orientation shared by all, not only by the board of directors and management but by every single person who works for our Group.

More particularly, 2010 was a year of great transformation: we stepped up our presence in Latin America, we considerably improved our equity structure, we recovered our level of competitiveness and we continued to grow the loyalty of our customers.

The strengthening of our business in Latin America is due both to the re-launching of our operations in Brazil and the consolidation of the Group s investment holding in the Telecom Argentina group, thanks to the resolving of the dispute with the partners of the holding company Sofora Telecomunicaciones which had dragged on for almost three years.

Thus the international component has once again become the pillar of the Group s growth strategy, making it possible to compensate the trend in a domestic market suffering from increasing levels of saturation and a consequent escalation of the competition.

The second important achievement of 2010 was the net improvement in the company s equity structure. The overall debt of the Telecom Italia Group fell by almost 2.5 billion euros, settling at year-end to about 31.5 billion euros.

Thirdly, we strengthened our capacity to regain efficiency in all corporate areas of activity. The major re-scaling of industrial costs was transferred almost entirely to our customers in the form of a general lowering of prices, a move which enabled us to improve the competitiveness of our fixed network services and even more of our mobile network services. In 2010 the number of mobile network services customers began to grow again, while the decline in the number of fixed network services customers settled at levels which were much lower than in previous years. In addition, the generally higher level of customer satisfaction was partly due to our constant efforts to improve the quality of service.

The combined effect of these factors (cost reduction, recovery of competitiveness in the domestic market and strong growth in our foreign operations) led to a net profit which, even if we leave aside extraordinary or non-recurring transactions, is approximately 18% higher than in 2009.

Overall, therefore, today, Telecom Italia is leaner, more efficient, more flexible. It is more international and is closer to its customers, in line with the aims and the time frames it set itself previously.

We are fully aware that we cannot allow ourselves to relax, even for a moment. The future of the Italian economy is still fraught with uncertainty. Furthermore, the evolution of the habits of consumers with regard to telecommunications products and services will have to be supported by new investments in network infrastructures, for which it will be necessary to identify new remuneration equilibriums. Lastly, we shall have to face up to a market that is ever more competitive and dynamic, in which new subjects are emerging with business models that are different to those of telecommunications operators.

However, the new solid framework of the Group, its capacity to develop innovation and its primary role in supporting and promoting the vital process of digitizing the Italian economy and society allow us to look ahead calmly and confidently. However great the challenges that lie ahead, we are ready to seize them, in the interests of our stakeholders, the people who work for us, our partners and, more generally speaking, the countries where we operate, whose economic and social development we fully intend to support.

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2010 and the comparative figures for the prior year have been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRS).

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

Furthermore, the part entitled Business Outlook for the Year 2011 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which is beyond the scope of the Group s control.

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

On October 13, 2010, the Sofora group Telecom Argentina entered the scope of consolidation following the acquisition of an 8% stake in the share capital of Sofora Telecomunicaciones S.A., the holding company of the Telecom Argentina group. As a result, the stake in the Telecom Argentina group became 16.2%. The data of the Sofora group are represented in the Telecom Italia Group by the new business unit denominated Argentina Business Unit .

During 2010, the following companies exited the scope of consolidation:

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HanseNet Telekommunikation GmbH (a company operating in the broadband sector in Germany), which was already classified in Discontinued operations/Non-current assets held for sale; the sale took place on February 16, 2010;

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Elettra (a company included in the Domestic Business Unit International Wholesale) sold on September 30, 2010 and the BBNed group (included in Other Operations) sold on October 5, 2010.

During 2009, the following principal changes in the scope of consolidation occurred:

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entry, on December 30, 2009, of the Brazilian fixed-line operator Intelig Telecomunicações Ltda following the acquisition of a 100% investment by Tim Participações, consolidated in the Brazil Business Unit;

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exit, on May 1, 2009, of Telecom Media News S.p.A. following the sale of a 60% stake by Telecom Italia Media S.p.A..

Key Operating and Financial Data

Telecom Italia Group

2010 Highlights

Argentina Business Unit

On October 13, 2010, the Telecom Italia Group formalized the agreement to increase its stake in Sofora Telecomunicaciones S.A. - the holding company which controls Telecom Argentina group from 50% to 58%.

The Sofora group - Telecom Argentina is one of the largest operators of fixed and mobile telecommunications in Argentina and mobile communications in Paraguay. Increasing the stake in Sofora did not require any cash disbursement on the part of Telecom Italia and allowed the Telecom Italia Group to consolidate line-by-line the results of the Sofora/Telecom Argentina group starting from the fourth quarter of 2010. Under IAS/IFRS (IFRS 3 revised), the transaction generated a one-time net positive effect on the separate consolidated income statement of the Telecom Italia Group in the last quarter of 2010 of 266 million euros.

Since its entry in the scope of consolidation of the Telecom Italia Group, the Argentina Business Unit has reported revenues of about 800 million euros, EBITDA of approximately 245 million euros (EBITDA margin 30.6%) and EBIT of around 100 million euros (EBIT margin 13.1%). The net financial position at December 31, 2010 shows a cash balance of about 86 million euros.

Revenues and EBITDA

In this year 2010, the Telecom Italia Group s commitment is stronger as it follows a path towards the transformation of its business in both Italy and Brazil. Revenue performance in the fourth quarter confirms the trend of continuing improvement, aided by both the consolidation of the Argentina Business Unit and the appreciation of the real/euro exchange rate. In terms of organic revenues, the fourth quarter confirms this improvement over the previous quarters (-0.8% in the fourth quarter of 2010, -4.4% in third quarter of 2010, -5.3% in the second quarter of 2010 and -4.9% in the first quarter of 2010) thanks to the positive results achieved by Brazil and better performance by the Domestic area over last year.

Careful control over costs combined with the benefits obtained from the Efficiency Projects begun under the Business Plan 2009-2011 have allowed the Group to reach EBITDA in 2010 of 11,412 million euros and an EBITDA margin of 41.4% and ensure stability in terms of both reported and organic figures.

Profit attributable to owners of the Parent

Profit attributable to owners of the Parent is 3,121 million euros in 2010. This profit figure was reached partly as a result of the above net positive impact connected with the acquisition of control of Sofora and also because of the tax benefit of more the 600 million euros recognized by Brazil for deferred tax assets.

Excluding these factors and other non-recurring items, net profit would be 18.4% higher than in the year 2009 (2,608 million euros in 2010 compared to 2,203 million euros in 2009) thanks to better operating results and positive effects from financial management and investment management.

Financial discipline and debt reduction

Adjusted net financial debt is 2,481 million euros lower than at December 31, 2009 and 1,517 million euros lower compared to September 30, 2010. Disposals of investments and rigorous financial discipline led to this improvement and also neutralized the impact of distributing dividends, the payment of a total of 418 million euros to the Revenue Agency over the Telecom Italia Sparkle case and the payment 1.4 billion euros of income taxes.

The trend of the key operating and financial measures in 2010 can be summarized as follows:

Organic consolidated **Revenues**: amount to 27,578 million euros. The organic change [1] is -3.8% compared to last year. Reported consolidated revenues show a positive change of 2.5% (+677 million euros) owing to the entry of the Argentina Business Unit in the scope of consolidation (798 million euros) and also the Brazil Business Unit s positive real/euro exchange rate effect.

More to the point:

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the organic reduction in the **Domestic** Business Unit **Revenues** is 7.4%; as concerns performance by customer segment in 2010 compared to the prior year, revenues are down by 11.5% in the Consumer segment, 6.0% in the Business segment and 4.8% in the Top Clients segment. However, it should be noted that both the consolidated Domestic Business Unit and the Consumer and Top Clients segments report gains in the fourth quarter compared to the previous quarters.

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Organic **Revenues in Brazil** are up 5.1% over 2009 (+303 million euros). The marketing policy for SIM without a correlated handset sale, although causing a reduction in Revenues from handset sales, is compensated by the positive organic change in Service Revenues of 5.8% in 2010 compared to the prior year. This gain is supported by the growth of the customer base which records an increase of about 10 million lines in 2010 over 2009 and the expansion in voice traffic which rose by more than 60% in 2010 compared to the prior year.

Organic consolidated **EBITDA**: shows a focus on revenues with higher margins, efficiency measures and cost controls aimed at keeping cash costs in check. This is borne out by the trend in the organic EBITDA margin and organic consolidated EBITDA in 2010.

Specifically, the organic consolidated **EBITDA margin:** gains 1.7 percentage points in 2010, reaching 42.8% (41.1% in 2009). Organic EBITDA in absolute terms is 11,801 million euros, in line with the prior year (11,791 million euros). Reported EBITDA posts an increase of 297 million euros (from 11,115 million euros in 2009 to 11,412 million euros in 2010). EBITDA is positively impacted by the entry of the Argentina Business Unit in the scope of consolidation (245 million euros), making it possible to offset the negative impact of the provision charge for non-recurring expenses relating to the union agreement for mobility under ex law 223/1991 signed during the course of the year 2010 (258 million euros).

Organic consolidated **EBIT:** totals 6,231 million euros in 2010. The organic change is positive and is +5.3% higher than in 2009 (reported EBIT: +320 million euros, +5.8%).

Organic consolidated **EBIT margin**: is 22.6% in 2010, gaining 2 percentage points over the previous year (20.6%).

Finance income/expenses, Investment Results and Income Taxes: show the financial component, investment management and the equity valuation of associates, recording an overall improvement of 468 million euros over 2009. The investment results, in particular, include the positive impact of the fair value adjustment of the stake already held in the Sofora group (266 million euros). The financial income/expense balance, in particular, improves by 96 million euros largely due to lower interest rates and the reduction in net financial debt.

Excluding the aforementioned benefit from the recognition of deferred tax assets in Brazil, income taxes are basically unchanged compared to 2009.

Profit for the year attributable to owners of the Parent: is 3,121 million euros, increasing 1,540 million euros compared to 2009. Net profit in 2010 is the highest reported in the last five years. Even excluding the cited net positive impact connected with the acquisition of control of Sofora, the other non-recurring items as well as the deferred tax assets of Brazil, the profit is significantly higher (+405 million euros; +18.4%) compared to 2009, also restated excluding non-recurring items.

Operating free cash flow: is 6,213 million euros and is reduced by the negative change due to the utilization of operating provisions set aside in previous years in connection with the Telecom Italia Sparkle case (389 million euros compared to a total of 418 million euros: the remaining amount of 29 million euros produces an impact on non-operating items since it refers to finance interest).

Excluding such impact, operating free cash flow during the period (6,602 million euros) increases by 304 million euros compared to 2009 (6,298 million euros). As a confirmation of this trend, operating free cash flow in the fourth quarter is up by 396 million euros compared to 2009.

Adjusted net financial debt: is 31,468 million euros at December 31, 2010, down 2,481 million euros compared to December 31, 2009 (33,949 million euros) and 1,517 million euros compared to September 30, 2010 (32,985 million euros). Operations management, combined with the sales of HanseNet, Elettra and BBNed and the reimbursement received upon the nationalization by Entel Bolivia, amply covered the cash requirements for the payment of dividends (1,093 million euros), the foregoing payment of 418 million euros for the Telecom Italia Sparkle case and payment of income taxes of about 1.4 billion euros.

Liquidity margin: amounts to 6.8 billion euros at December 31, 2010. During 2010, a new bond issue of 1.25 billion euros was placed on the European market and bonds were repaid and bought back for about 5.8 billion euros. There is another 7.8 billion euros of liquidity in irrevocable long-term credit lines (of which 6.5 billion euros expires in 2014 and 1.25 billion euros, relating to a credit line obtained in February 2010, expiring in 2013), not subject to events which limit utilization. In the present environment of financial market uncertainty, the Telecom Italia Group keeps a high level of financial coverage, optimizing, at the same time, the average cost of debt.

Consolidated Operating and Financial Data (*)

(millions of euros)	**2010**	**2009**	**2008**	**2007**	**2006**
Revenues	27,571	26,894			

	28,746
	29,554
	29,575
EBITDA[1]	
	11,412
	11,115
	11,090
	11,295
	12,498
EBIT[1]	
	5,813
	5,493
	5,437
	5,738
	7,269
Profit before tax from continuing operations	
	4,127
	3,339
	2,894
	4,120
	5,366
Profit from continuing operations	
	3,579
	2,218
	2,217

2,459

2,855

Profit (loss) from Discontinued operations/Non-current assets held for sale

(7)

(622)

(39)

(99)

(159)

Profit for the year

3,572

1,596

2,178

2,360

2,696

Profit for the year attributable to owners of the Parent

3,121

1,581

2,177

2,353

2,707

Capital expenditures	4,583
	4,543
	5,040
	5,031
	4,698

Consolidated Financial Position Data (*)

(millions of euros)	**12/31/2010**	**12/31/2009**

12/31/2008

12/31/2007

12/31/2006

Total assets

89,131

86,267

86,223

88,593

90,322

Total equity

32,610

27,120

26,328

26,494

26,702

- attributable to owners of the Parent

28,819

25,952

25,598

	25,431
	25,622
- attributable to non-controlling interests	
	3,791
	1,168
	730
	1,063
	1,080
Total liabilities	
	56,521
	59,147
	59,895
	62,099
	63,620
Total equity and liabilities	
	89,131
	86,267
	86,223
	88,593
	90,322
Share capital	
	10,600
	10,585
	10,591

10,605

10,605

Net financial debt carrying amount (1)

32,087

34,747

34,039

35,701

37,301

Adjusted net financial debt (1)

31,468

33,949

34,526

35,873

37,200

Adjusted net invested capital (2)

64,078

61,069

60,854

62,367

63,902

Debt Ratio (Adjusted net financial debt /Adjusted net invested capital)

49.1%

55.6%

56.7%

57.5%

58.2%

Headcount, number in the Group at year-end [3]

(number)

12/31/2010

12/31/2009

12/31/2008

12/31/2007

12/31/2006

Headcount (excluding headcount of Discontinued operations/Non-current assets held for sale)

84,200

71,384

75,320

79,238

80,373

Headcount of Discontinued operations/Non-current assets held for sale

-

2,205

2,505

4,191

2,836

Headcount, average number in the Group

(3)

(equivalent number)	**2010**	**2009**	**2008**	**2007**	**2006**
Headcount (excluding headcount of Discontinued operations/Non-current assets held for sale)	70,150	69,964	73,508	75,735	

77,374

Headcount of Discontinued operations/Non-current assets held for sale

-

2,168

3,277

3,893

2,898

Consolidated Profit Ratios (*)

2010

2009

2008

2007

2006

EBITDA(1) / Revenues	
	41.4%
	41.3%
	38.6%
	38.2%
	42.3%
EBIT(1) / Revenues (ROS)	
	21.1%
	20.4%
	18.9%
	19.4%
	24.6%
Adjusted net financial debt /EBITDA(1)	
	2.8
	3.1
	3.1
	3.2
	3.0

The operating data of the Argentina Business Unit for the years 2006 2009 are only reported for illustrative purposes. The Argentina Business Unit has been consolidated by the Telecom Italia Group from the date of October 13, 2010.

	Operating Data
	12/31/2010
	12/31/2009
	12/31/2008
	12/31/2007
	12/31/2006

Fixed-line network connections Domestic BU at year-end (thousands)

17,609

18,525

20,031

22,124

23,698

Physical accesses at year-end (Consumer + Business) (thousands)

15,351

16,097

17,352

19,221

20,540

Fixed-line network connections BU Argentina at year-end (thousands)

4,107

4,060

4,010

3,918

3,821

Mobile lines at year-end (thousands)

100,244

71,958

71,199

67,585

57,860

Mobile lines Domestic BU (thousands)

31,018

30,856

34,797

36,331

32,450

Mobile lines Brazil BU (thousands)

51,015

41,102

36,402

31,254

25,410

Mobile lines Argentina

BU (thousands)

18,211

16,281

14,390

12,292

9,589

Broadband accesses Domestic BU

at year-end (thousands)

9,058

8,741

8,134

7,590

6,770

of which retail broadband accesses (thousands)

7,175

7,000

6,754

6,427

5,600

Broadband accesses Argentina BU

at year-end (thousands)
1,380
1,214
1,032
768
448

(*) During the course of 2010, the provisional amounts of assets and liabilities recorded as of the acquisition date of control of the Brazilian company Intelig Telecomunicações Ltda have been adjusted, as set forth in IFRS 3 *(Business Combinations*), with retroactive effect, to take into account their fair value at the acquisition date (December 30, 2009) with the consequent re-measurement of the value of goodwill initially recognized.

Moreover, starting from 2010, some taxes paid in Brazil, that were not significant, were reclassified from Other operating expenses to Revenues and Other income as deductions. Specifically, such reclassifications allow the Telecom Italia Group to align its accounting presentation to that of the main telecommunications operators, thus ensuring better comparability and understanding of its income statement and financial information. All periods under comparison have been reclassified on a consistent basis.

The amounts reclassified are as follows:

(millions of euros)	**2010**	**2009**	**2008**	**2007**	**2006**
Income taxes and other income of the companies in Brazil (PIS and COFINS)	**(334)**	**(271)**	**(282)**	**(266)**	**(221)**

(1) Details are provided in the section Alternative Performance Measures .

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

(3) Headcount includes the number of people with temp work contracts.

Corporate Boards at December 31, 2010

Board of Directors

The board of directors of Telecom Italia was elected by the shareholders meeting held on April 14, 2008 for three years, up to the approval of the 2010 annual financial statements.

The shareholders meeting held on April 29, 2010 appointed Mauro Sentinelli director of the Company, in place of Stefano Cao who, in turn, in 2009 had replaced the director Gianni Mion.

The director Berardino Libonati passed away on November 30, 2010.

As of December 31, 2010, the board of directors of Telecom Italia is composed of 14 directors:

Chairman

Gabriele Galateri di Genola

Chief Executive Officer

Franco Bernabè

Directors

César Alierta Izuel

Paolo Baratta (independent)

Tarak Ben Ammar

Roland Berger (independent)

Elio Cosimo Catania (independent)

Jean Paul Fitoussi (independent)

Julio Linares López

Gaetano Micciché

Aldo Minucci

Renato Pagliaro

Mauro Sentinelli

Luigi Zingales (independent)

Secretary to the Board

Antonino Cusimano

The board of directors formed the following internal committees:

- **Executive Committee** composed of: Gabriele Galateri di Genola (Chairman), Franco Bernabè, Roland Berger, Elio Cosimo Catania, Julio Linares López, Aldo Minucci and Renato Pagliaro;

- **Committee for Internal Control and Corporate Governance** composed of: Paolo Baratta (Chairman), Roland Berger, Jean Paul Fitoussi and Aldo Minucci;

- **Nomination and Remuneration Committee**, composed of: Elio Cosimo Catania (Chairman), Aldo Minucci[(*)] and Luigi Zingales.

[(*)] On December 16, 2010, the board of directors appointed Aldo Minucci a member of the Nomination and Remuneration Committee to replace Berardino Libonati.

Board of Statutory Auditors

The board of statutory auditors of Telecom Italia was elected by the shareholders meeting held on April 8, 2009 and will remain in office until approval of the 2011 annual financial statements.

The board of statutory auditors is composed as follows:

Chairman

Enrico Maria Bignami

Acting Auditors

Gianluca Ponzellini

Lorenzo Pozza

Salvatore Spiniello

Ferdinando Superti Furga

Alternate Auditors

Silvano Corbella

Maurizio Lauri

Vittorio Giacomo Mariani

Ugo Rock

Independent Auditors

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

Manager responsible for preparing the corporate financial reports

Andrea Mangoni (Head of the Group Administration, Finance and Control Function) is the manager responsible for preparing the corporate financial reports of Telecom Italia.

Macro-Organization Chart at December 31, 2010

Telecom Italia Group

Information for Investors

Telecom Italia S.p.A. share capital at December 31, 2010

Share capital (in euros)	10,688,746,056.45
Number of ordinary shares (par value 0.55 euros each)	13,407,963,078
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia ordinary treasury shares	37,672,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%

Market capitalization (based on December 2010 average prices)	18,020 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2010, supplemented by communications received and other available sources of information (ordinary shares):

The shareholders of Telco (Generali Group: 30.58%; Mediobanca S.p.A.: 11.62%; Intesa Sanpaolo S.p.A.: 11.62%; Telefónica S.A.: 46.18%) signed a Shareholders Agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122.

The description of the fundamental contents of the agreement is contained in the annual Report on the Corporate Governance and Ownership Structure, published on the website www.telecomitalia.com.

Major holdings in share capital

At December 31, 2010, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are as follows:

Holder	**Type of ownership**	**% stake in ordinary share capital**
Telco S.p.A.	Direct	22.40%
Findim group S.A.	Direct	4.99%

Furthermore, the following companies, as investment advisory firms, notified Consob that they are in possession of Telecom Italia S.p.A. ordinary shares:

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Brandes Investment Partners LP: on July 23, 2008, for a quantity of ordinary shares which at December 31, 2010 is equal to 4.02% of total Telecom Italia S.p.A. ordinary shares;

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Blackrock Inc.: on May 20, 2010, for a quantity of ordinary shares which at December 31, 2010 is equal to 2.89% of total Telecom Italia S.p.A. ordinary shares;

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Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares which at December 31, 2010 is equal to 2.06% of total Telecom Italia S.p.A. ordinary shares.

Common representatives

The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements at December 31, 2012).

Francesco Pensato is the common representative of the bondholders for the following bonds:

.

Telecom Italia S.p.A. 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired (with a mandate for the three-year period 2008-2010);

.

Telecom Italia S.p.A. 1,250,000,000 euros 5.375% notes due 2019 (with a mandate for the three-year period 2009-2011).

Up to the extinguishment of the bonds, Francesco Pensato was also the common representative of the bondholders for the Telecom Italia S.p.A. 750,000,000 euros, 4.50% notes due 2011, repaid in full on January 28, 2011.

Annual Report on Corporate Governance

The annual Report on Corporate Governance and Ownership Structure is published on the corporate website www.telecomitalia.com under the Corporate menu in Governance.

Performance of the stocks of the major companies in the Telecom Italia Group

Relative performance by Telecom Italia S.p.A.

1/1/2010 12/31/2010 vs. FTSE - All Shares Italia and DJ Stoxx TLC Index (*)

(*) Stock market prices. Source: Reuters.

Relative performance by Telecom Italia Media S.p.A.

1/1/2010 12/31/2010 vs. FTSE - All Shares Italia and DJ Stoxx Media Index (*)

(*) Stock market prices. Source: Reuters.

Relative performance by Tim Participações S.A.

1/1/2010   12/31/2010 vs. BOVESPA Index and ITEL Index (in Brazilian reais) (*)

(*) Stock market prices. Source: Reuters.

Relative performance by Telecom Argentina S.A.

1/1/2010 12/31/2010 vs. MERVAL Index (in Argentine pesos) (*)

(*) Stock market prices. Source: Reuters.

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

Ratings at December 31, 2010

Rating

Outlook

STANDARD & POOR'S	BBB	Stable
MOODY'S	Baa2	Stable
FITCH RATINGS	BBB	Stable

During the course of 2010, the three rating agencies - Standard & Poor s, Moody s and Fitch Ratings confirmed their ratings of Telecom Italia. Specifically:

- Standard & Poor s confirmed its BBB rating with a stable outlook for the Group;
- Moody s confirmed its Baa2 rating with a stable outlook for the Group;
- Fitch Ratings confirmed its BBB rating with a stable outlook for the Group.

Financial ratios - Telecom Italia S.p.A. and the Telecom Italia Group

Telecom Italia S.p.A.

(euros)	**2010**	**2009**	**2008**
Share prices (December average)			
- Ordinary	0.98	1.08	1.09
- Savings	0.81		

0.76

0.73

Dividends per share (1)

- Ordinary

0.058

0.050

0.050

- Savings

0.069

0.061

0.061

Pay Out Ratio(1) (*)

34%

74%

70%

Market to Book Value (**)

0.76

0.83

0.82

Dividend Yield (based on December average) (1) (***)	
- Ordinary	
	5.93%
	4.63%
	4.59%
- Savings	
	8.47%
	8.03%
	8.36%

Telecom Italia Group

(euros)	
	2010
	2009
	2008

Earnings per share (basic is equal to diluted) ordinary shares
0.16
0.08
0.11

Earnings per share (basic is equal to diluted) savings shares
0.17
0.09
0.12

(1)

For the year 2010, the ratio was calculated on the basis of the resolution for the approval of the profit for the year proposed in the shareholders meeting held on April 12, 2011.

(*)

Dividends paid in the following year/Profit for the year.

(**) Capitalization/Equity of Telecom Italia S.p.A..

(***) Dividends per share/Share prices.

Review of Operating and Financial Performance Telecom Italia Group

2010 Consolidated Operating Performance

The main profit indicators in 2010 compared to 2009 are the following:

(millions of euros)	2010 (a)	2009 (b)	Change (a-b) amount	%	% organic
REVENUES	**27,571**				

26,894

677

2.5

(3.8)

EBITDA

11,412

11,115

297

2.7

0.1

EBITDA MARGIN

41.4%

41.3%

0.1pp

ORGANIC EBITDA MARGIN

42.8%

41.1%

1.7pp

EBIT

5,813

5,493

320

5.8

5.3

EBIT MARGIN

21.1%

20.4%

0.7pp

ORGANIC EBIT MARGIN

22.6%

20.6%

2.0pp

PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

4,127

3,339

788

23.6

PROFIT FROM CONTINUING OPERATIONS

3,579

2,218

1,361

61.4

PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE	(7)	(622)	615	98,9
PROFIT FOR THE YEAR	**3,572**	**1,596**	1,976	123.8
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**3,121**	**1,581**	1,540	97.4

The following chart summarizes the main line items which had an impact on the profit attributable to owners of the Parent in 2010:

Revenues

Revenues amount to 27,571 million euros in 2010, increasing 2.5% compared to 26,894 million euros in 2009 (+677 million euros). In terms of the organic change, the reduction in consolidated revenues is 3.8% (-1,083 million euros).

In detail, the organic change in revenues is calculated by:

.

excluding the effect of the change in the scope of consolidation (848 million euros, referring to the entry in the scope of consolidation in 2010 of Intelig Telecomunicações Ltda (Brazil Business Unit) and the consolidation of the Argentina Business Unit (specifically, in the fourth quarter of 2009, revenues of the Argentina Business Unit amounted to about 642 million euros);

.

excluding the effect of exchange differences (+902 million euros, mainly due to the positive exchange rate effect of the Brazil Business Unit [2], equal to +890 million euros);

.

excluding non-organic other revenues, in 2009 and in 2010, respectively equal to 17 million euros and 7 million euros.

The breakdown of revenues by operating segment is the following:

2010

2009

Change

(millions of euros)

% of total

% of total

amount

%

%

organic

Domestic	20,068	*72.8*	21,663	*80.5*	(1,595)	(7.4)	(7.4)
- *Core Domestic*	*19,065*	*69.1*	*20,580*	*76.5*	*(1,515)*	*(7.4)*	*(7.4)*
- *International Wholesale*	*1,569*	*5.7*	*1,710*				

6.4

(141)

(8.2)

(8.4)

Brazil

6,199

22.5

4,753

17.7

1,446

30.4

5.1

Media, Olivetti and Other Operations

713

2.6

670

2.5

43

6.4

Adjustments and Eliminations

(199)

(0.8)

(192)

(0.7)

(7)

(3.6)

Total consolidated revenues

(excluding Argentina)

26,781

97.1

26,894

100.0

(113)

(0.4)

(4.4)

Argentina

798

2.9

-

-

798

-

24.3

Adjustments and Eliminations

(8)
-
(8)
Total consolidated revenues
27,571
100.0
26,894
100.0
677
2.5
(3.8)

The following chart summarizes the changes in organic revenues in the years under comparison:

The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a declining trend in organic revenues of -7.4% compared to 2009, in line with the decrease reported in the first half. Service revenues (19,208 million euros in 2010) post a contraction of -6.6% (compared to -6.3% in the first half). The effect of such change in the mobile area (-8.4% in 2010 compared to -7.3% in the first half) comes from the significant investment made in terms of prices from the standpoint of the competitive repositioning of TIM s rate plans in order to regain market share. Conversely, in the fixed area, a decreasing trend is confirmed (-4.3% in 2010 compared to -4.2% in the first half). As far as handset sales are concerned, revenues total 867 million euros in 2010, with a rallying trend recorded (-22.9% in 2010 compared to -29.1% in the first half) in the fixed area (-5.0% in 2010 compared to -16.6% in the first half) thanks to an improving trend in ICT sales; the mobile area of handset sales, on the other hand, posts a slight decline (-46.9% in 2010 compared to -45.8% in the first half) but with a better trend in the fourth quarter (-39.9%) owing to the launch in the last part of the year of new internet plans which boosted the sale of handsets (smartphones and tablets) that can be used for the new internet services.

As for the Brazil Business Unit, organic revenues grew 5.1% in 2010 compared to 2009 (+2.1% in the first half). Service revenues confirm the positive trend (+5.8% in 2010, in line with the first half) driven by the increase in the customer base (+9.9 million lines compared to the end of 2009), while handset revenues post a sharp check in the trend of decreasing sales (-4.4% in 2010 compared to -39.5% in the first half).

An in-depth analysis of revenue performance by individual Business Unit is provided in the The Business Units of the Telecom Italia Group .

EBITDA

EBITDA is 11,412 million euros, increasing 297 million euros (+2.7%) over the prior year. The EBITDA margin is 41.4% (41.3% in 2009). In organic terms, EBITDA is basically stable (+0.1%) while the organic EBITDA margin rose 1.7 percentage points (42.8% in 2010 compared to 41.1% in 2009).

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

2010

2009

Change

(millions of euros)

% of total

% of total

amount

%

%

organic

Domestic

9,393

82.3

9,883

88.9

(490)

(5.0)

(2.9)

EBITDA margin

46.8

45.6

1.2 pp

2.3 pp

Brazil

1,801

15.8

1,255

11.3

546

43.5

16.6

EBITDA margin

29.1

26.4

2.7 pp

2.9 pp

Media, Olivetti and Other Operations

(27)

(0.2)

(26)

(0.2)

(1)

3.8

Adjustments and Eliminations

1

-

3

-

(2)

-

Total consolidated EBITDA

(excluding Argentina)

11,168

97.9

11,115

100.0

53

0.5

(0.2)

EBITDA margin

41.7

41.3

0.4 pp

1.7 pp

Argentina

245

2.1

-

-

245

16.2

EBITDA margin

30.7

Adjustments and Eliminations

(1)

-
-
-
(1)
-
Total consolidated EBITDA
11,412
100.0
11,115
100.0
297
2.7
0.1
EBITDA margin
41.4
41.3
0.1 pp
1.7 pp

The following chart summarizes the changes in organic EBITDA:

(Revenues and income) / costs and expenses excluded from the calculation of organic EBITDA are the following:

(millions of euros)	2010	2009	Change
Expenses for mobility under Law 223/91	258	-	

			258
Disputes and settlements	91	154	(63)
Costs for services of the Brazil Business Unit associated with the conclusion of a dispute	-	22	(22)
Other	40	36	4
Total net non-organic (revenues and income) / costs and expenses	**389**	**212**	**177**

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

Acquisition of goods and services

Acquisition of goods and services stands at 11,383 million euros, decreasing 97 million euros (-0.8%) compared to 2009 (11,480 million euros). The reduction is considerably higher (-974 million euros), when excluding the impact of the entry of the Argentina Business Unit in the scope of consolidation (impact of 347 million euros in 2010) and the positive exchange rate effect of the Brazil Business Unit (+530 million euros).

This reduction, mainly in the Domestic Business Unit, refers to purchases of goods and products for marketing purposes and the portion of revenues to be paid to other operators.

In detail:

(millions of euros)	**2010**	**2009**	**Change**
Purchases of goods	1,568	1,852	(284)
Portion of revenues to paid to other operators and interconnection			

costs	4,275	4,282	(7)
Commercial and advertising costs	2,100	2,012	88
Power, maintenance and outsourced services	1,258	1,254	4
Rent and leases	594	572	22
Other service expenses	1,588	1,508	80
Total acquisition of goods and services			

11,383

11,480

(97)

% of Revenues

41.3

42.7

(1.4) pp

Employee benefits expenses

Details are as follows:

(millions of euros)

2010

2009

Change

Employee benefits expenses Italian companies:

Ordinary expenses of employees	3,313	3,467	(154)
Expenses for mobility under Law 223/91	258	-	258
Total employee benefits expenses - Italy	**3,571**	**3,467**	**104**
Total employee benefits expenses - Foreign	**450**	**267**	**183**
Total employee benefits expenses	**4,021**		

3,734

287

% of Revenues

14.6

13.9

0.7 pp

As for the Italian component of ordinary employee benefits expenses, the decrease of 154 million euros is mainly due to the reduction in the average headcount of the salaried workforce (-3,237 compared to 2009, of whom -565 are under so-called solidarity contracts in Telecom Italia S.p.A. and Shared Service Center S.r.l.).

Expenses for mobility under Law 223/91 total 258 million euros for the Group and of that amount about 245 million euros refers to the Parent, Telecom Italia S.p.A., as a result of the August 4, 2010 Agreement signed with the labor unions. The agreement covers the steps to be taken regarding employment levels during the years of the Business Plan 2010 2012, with the expectancy, among other things, of recourse to a new voluntary mobility procedure for 3,900 people in the period 2010-2012.

In determining the amount of the provision charge, account was taken of the estimated of the cost of the new mobility procedure and the estimate of the higher mobility expenses for any integration of the cost for those terminated under pre-June 2010 mobility, due to the coming into force of the so-called Economic Maneuver as a result of the postponement of the pension windows. Such expenses are determined by the eventuality that the competent institutions would not issue an adjusting maneuver and that Telecom Italia, of necessity, would be required to safeguard the effectiveness of the agreements that have already been reached.

The remaining amount of mobility expenses (13 million euros) refer to the mobility procedures under Law 223/91 signed with the labor unions by the following companies:

.

Shared Service Center, on November 16, 2010 (2 million euros);

.

Telecom Italia Sparkle, on December 7, 2010 (7 million euros);

.

Olivetti, on September 30, 2010 (3 million euros);

.

Olivetti I-Jet, on January 11, 2010 and Advalso on March 8, 2010 (1 million euros in total).

As for the foreign component of employee benefits expenses, the increase of 183 million euros is mainly due to the entry of the Argentina Business Unit in the scope of consolidation (impact of 114 million euros in 2010) and the positive exchange rate effect of the Brazil Business Unit (+39 million euros).

Average headcount of the salaried workforce is the following:

(equivalent number)	**2010**	**2009**	**Change**
Average salaried workforce Italy	57,087	60,324	(3,237)
Average salaried workforce Foreign	13,063	9,640	3,423
Total average			

salaried workforce [1]

70,150

69,964

186

Discontinued operations [2] Foreign

-

2,168

(2,168)

Total average salaried workforce

including Discontinued operations

70,150

72,132

(1,982)

(1)

Includes the average headcount with temp work contracts: 84 in 2010 (68 in Italy and 16 foreign). In 2009, the average headcount was 316 (279 in Italy and 37 foreign).

(2)

In 2009, the figure refers to HanseNet Telekommunikation GmbH, sold at the beginning of 2010.

The increment in the average headcount of the salaried workforce foreign in 2010 compared to the prior year is largely due to the addition of 3,711 persons as a result of the consolidation of the Argentina Business Unit starting from October 13, 2010.

Headcount at December 31, 2010 is the following:

(number)	**12/31/2010**	**12/31/2009**	**Change**
Headcount Italy	58,045	60,872	(2,827)
Headcount Foreign	26,155	10,512	15,643
Total (1)	**84,200**	**71,384**	**12,816**
Discontinued operations (2) Foreign	-	2,205	(2,205)

Total - including Discontinued operations
84,200
73,589
10,611

(1)

Includes headcount with temp work contracts: 71 at December 31, 2010 and 56 at December 31, 2009.

(2)

At December 31, 2009, the figure refers to HanseNet Telekommunikation GmbH, sold at the beginning of 2010.

The increase in the headcount - foreign at December 31, 2010 compared to December 31, 2009 is largely due to the consolidation of the Argentina Business Unit (15,650 persons at December 31, 2010).

Other income

Details are as follows:

(millions of euros)	**2010**	**2009**	**Change**
Late payment fees charged for telephone services			

	72	71	1
Recovery of employee benefit expenses, purchases and services rendered	47	46	1
Capital and operating grants	38	49	(11)
Damage compensation, penalties and sundry recoveries	18	30	(12)
Sundry income	80	84	(4)
Total			

255	**280**	**(25)**

Other operating expenses

Details are as follows:

(millions of euros)	**2010**	**2009**	**Change**
Writedowns and expenses in connection with credit management	478	565	(87)
Provision charges	80	168	(88)

Telecommunications operating fees and charges	484	318	166
Indirect duties and taxes	200	128	72
Penalties, settlement compensation and administrative fines	105	73	32
Association dues and fees, donations, scholarships and traineeships	24	26	(2)
Sundry expenses	51	67	(16)
Total	**1,422**		

1,345
77

Other operating expenses grew 77 million euros compared to 2009 mainly due to the entry of the Argentina Business Unit in the scope of consolidation (impact of 83 million euros in 2010) and the increase of the Brazil Business Unit (+121 million euros including an exchange rate effect of +87 million euros), countered by the reduction of 140 million euros of the Domestic Business Unit.

In particular:

.

writedowns and expenses in connection with credit management include 317 million euros referring to the Domestic Business Unit (404 million euros in 2009) and 133 million euros to the Brazil Business Unit (153 million euros in 2009);

.

provision charges recorded mainly for pending disputes include 53 million euros referring to the Domestic Business Unit (136 million euros in 2009) and 18 million euros to the Brazil Business Unit (25 million euros in 2009).

The increase of 166 million euros in telecommunications operating fees and charges refers principally to the Brazil Business Unit which contributes a positive exchange rate effect of +50 million euros.

Finally, with regard to the Domestic Business Unit, indirect duties and taxes include expenses for 15.6 million euros for the payment, made during the year, of VAT relating to invoices of the period 2005-2009 for exports to operators in San Marino because the tax documentation was found to be incomplete.

Depreciation and amortization

Details are as follows:

(millions of euros)

2010	**2009**	**Change**

Amortization of intangible assets with a finite useful life	2,216	2,251	(35)
Depreciation of property, plant and equipment owned and leased	3,331	3,300	31
Total	**5,547**	**5,551**	**(4)**

The increase in amortization and depreciation charges is due to the entry of the Argentina Business Unit in the scope of consolidation (impact of 140 million euros in 2010) and higher charges by the Brazil Business Unit (+72 million euros, including the Brazilian real/euro exchange rate effect of +195 million euros), countered by the decrease in amortization and depreciation charges of the Domestic Business Unit (-207 million euros).

Net gains (losses) on disposals of non-current assets

Net gains on disposals of non-current assets in 2010 total 11 million euros. Details are as follows:

.

gain, net of the related transaction costs, for a total of 19 million euros, in connection with the completion of the Elettra sales transactions, realized through the sale of one of the ships and the subsequent disposal of the investment by the Domestic Business Unit International Wholesale;

.

gain, net of the related transaction costs, for about 1 million euros, in connection with the disposal, on October 5, 2010, of the entire investment held in BBNed N.V.;

.

other net losses on the sale of non-current assets for a total of 9 million euros.

In 2009, net losses on disposals of non-current assets were recorded for 59 million euros. Of that amount, 39 million euros referred to the final divestiture of the platform for credit management of the Domestic Business Unit s fixed consumer clientele segment and 11 million euros to the sale of a 60% stake in Telecom Media News S.p.A.

Impairment reversals (losses) on non-current assets

The writedowns of non-current assets amount to 63 million euros and include 46 million euros for the impairment of the goodwill allocated to the Media Business Unit; the writedown was based on the results of the impairment test. The remaining amount comprises other writedowns of intangible and tangible assets and the provision charge for expenses connected with the transactions for the sale of BBNed and Elettra.

EBIT

EBIT is 5,813 million euros, increasing 320 million euros compared to 2009 (+5.8%). The EBIT margin is up 0.7 percentage points (from 20.4% in 2009 to 21.1% in 2010). The organic change in EBIT is an increase of 315 million euros (+5.3%) and the organic EBIT margin grew to 22.6% in 2010 from 20.6% in 2009.

The following chart summarizes the changes in EBIT:

(Revenues and income) / costs and expenses excluded from the calculation of organic EBIT are the following:

(millions of euros)	2010	2009	Change
Non-organic costs and expenses already described under EBITDA	389	212	

	177
Losses (Gains) from the sale of buildings, investments and other-non-current assets and net writedowns on non-current assets	(17)
	50
	(67)
Impairment loss on the Media Business Unit	46
	46
Other expenses, net	-
	6
	(6)
Total net non-organic (revenues and income)/costs and expenses	**418**
	268
	150

Share of profits (losses) of associates and joint ventures accounted for using the equity method

Details are as follows:

(millions of euros)	2010	2009	Change
ETECSA	84	54	30
Other	15	13	2

	Total
	99
	67
	32

The investment in EtecSA (Cuba) has been classified in Non-current assets held for sale starting from the month of October 2010. As a consequence, the investment value includes not only the share of results up to September 30, 2010 but also an impairment reversal of 30 million euros, recorded up to the limit of the impairment losses recorded previously. Such reversal was carried out in accordance with IFRS 5 following the agreements reached at the end of 2010 for the sale of the investment. The sale was finalized on January 31, 2011. Further details are provided in the Note Events subsequent to December 31, 2010 in the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

Other income (expenses) from investments

Other income (expenses) from investments in 2010 is an income balance of 289 million euros and specifically include the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest already held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010 through the acquisition of a further 8% stake, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control.

The line item also includes the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

In 2009, the balance of Other income (expenses) from investments was an expense balance of 51 million euros and included the writedown of 39 million euros on the investment in Italtel Group.

Finance income (expenses)

Details are as follows:

	(millions of euros)
	2010
	2009
	Change

Fair value measurement of call options on 50% of Sofora Telecomunicaciones share capital	-	60	(60)
Early termination of derivative instruments	(9)	22	(31)
Net finance expenses, fair value adjustments of derivatives and underlyings and other items	(2,065)	(2,252)	187
Total	**(2,074)**	**(2,170)**	**96**

The change in finance income (expenses) is impacted by the general reduction in interest rates and lower net debt exposure.

Income tax expense

Income tax expense is 548 million euros, decreasing 573 million euros compared to 2009 (1,121 million euros). Specifically, while income taxes of the Parent, Telecom Italia S.p.A. are basically stable, the Brazil Business Unit has a tax benefit of about 700 million euros arising mainly from the recognition of deferred tax assets in connection with the fiscal recoverability of tax loss carryforwards which became recoverable on the basis of estimated future taxable income.

Profit (Loss) from Discontinued operations/Non-current assets held for sale

In 2010, the balance is a loss of 7 million euros and includes expenses incurred in connection with sales transactions of prior years, whereas in 2009 (-622 million euros), the balance included the impairment charge on the goodwill allocated to the broadband operations in Germany and also the negative contribution to the consolidated financial statements by HanseNet, sold at the beginning of 2010.

Profit for the year

The profit for the year can be analyzed as follows:

(millions of euros)	**2010**	**2009**
Profit for the year	**3,572**	**1,596**
Attributable to:		

Owners of the Parent:		
Profit (loss) from continuing operations	3,128	2,203
Profit (loss) from Discontinued operations/Non-current assets held for sale	(7)	(622)
Profit for the year attributable to owners of the Parent	**3,121**	**1,581**
Non-controlling interests:		
Profit (loss) from continuing operations	451	15
Profit (loss) from Discontinued operations/Non-current		

assets held for sale	
	-
	-
Profit (loss) attributable to Non-controlling interests	
	451
	15

Consolidated financial position performance

Financial position structure

(millions of euros)

12/31/2010

12/31/2009

Change

(a)

(b)

(a-b)

ASSETS

Non-current assets

	73,153	68,611	4,542
Goodwill	*43,912*	*43,615*	*297*
Intangible assets with a finite useful life	*7,903*	*6,284*	*1,619*
Tangible assets	*16,550*	*15,013*	*1,537*
Other non-current assets	*4,788*	*3,699*	*1,089*
Current assets	15,589	16,423	(834)
Inventories, Trade and miscellaneous receivables and other			

current assets	*8,177*	*7,855*	*322*
Current income tax receivables	*132*	*79*	*53*
Investments	-	*39*	*(39)*
Securities other than investments, Financial receivables and other current financial assets, Cash and cash equivalents	*7,280*	*8,450*	*(1,170)*
Discontinued operations/Non-current assets held for sale	389	1233	(844)
of a financial nature	-		

	81
	(81)
of a non-financial nature	
	389
	1,152
	(763)
	89,131
	86,267
	2,864
EQUITY AND LIABILITIES	
Equity	
	32,610
	27,120
	5,490
Non-current liabilities	
	38,450
	39,936
	(1,486)
Current liabilities	
	18,071
	18,244

.

(173)

Liabilities directly associated with Discontinued operations/Non-current assets held for sale

-

967

(967)

of a financial nature

-

659

(659)

of a non-financial nature

-

308

(308)

89,131

86,267

2,864

The consolidated financial position at December 31, 2010 includes the data of the Argentina Business Unit. In particular, in conformity with the requirements of IFRS 3, all the assets and liabilities of the acquired Sofora group have been measured for their recognition at fair value. Although the measurement for the 2010 financial statements has been performed in an exhaustive manner, as set out in the reporting standard, within 12 months following the operation, such provisional values could be the subject of further analysis and possible adjustment.

Non-current assets

.

Goodwill: increased 297 million euros due to the following:

recognition of goodwill for 166 million euros following the acquisition of control and subsequent consolidation of the Sofora group (Argentina Business Unit);

effect of the change in exchange rates for a total of 188 million euros, mainly relating to the Brazilian companies;

writedown of 46 million euros on goodwill allocated to the Media Business Unit, carried out on the basis of the results of the impairment test;

reduction of goodwill as a result of the sale of the BBNed group (goodwill of 5 million euros) and Elettra (goodwill of 6 million euros).

•

Intangible assets with a finite useful life: increased 1,619 million euros, from 6,284 million euros at the end of 2009 to 7,903 million euros at December 31, 2010, as a result of the following:

additions (+1,781 million euros);

amortization charge for the year (-2,216 million euros);

entry of the Argentina Business Unit in the scope of consolidation (+1,807 million euros);

disposals, exchange differences, other changes in the scope of consolidation, reclassifications and other movements (for a net balance of +246 million euros).

•

Tangible assets: increased 1,537 million euros from 15,013 million euros at the end of 2009 to 16,550 million euros at December 31, 2010, as a result of the following:

additions (+2,802 million euros);

depreciation charge for the year (-3,331 million euros);

entry of the Argentina Business Unit in the scope of consolidation (+1,823 million euros);

disposals, exchange differences, other changes in the scope of consolidation, reclassifications and other movements (for a net balance of +243 million euros).

Discontinued operations/Non-current assets held for sale

At December 31, 2010, following the decision to proceed with its disposal, which effectively occurred on January 31, 2011, the investment in EtecSA Cuba is considered an investment held for sale. Accordingly, at the end of the year, the entire amount of the investment, equal to 389 million euros, was reclassified to Discontinued operations/Non-current assets held for sale of a non-financial nature in the statement of financial position.

At December 31, 2009, the net Discontinued operations referred to HanseNet Telekommunikation GmbH, sold at the beginning of 2010, and included:

assets of a financial nature for 81 million euros;

goodwill for 103 million euros;

other assets of a non-financial nature for 1,049 million euros;

liabilities of a financial nature for 659 million euros;

liabilities of a non-financial nature for 308 million euros.

Consolidated equity

Consolidated equity amounts to 32,610 million euros (27,120 million euros at December 31, 2009), of which 28,819 million euros is attributable to owners of the Parent (25,952 million euros at December 31, 2009) and 3,791 million euros is attributable to Non-controlling interests (1,168 million euros at December 31, 2009).

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

(millions of euros)	**2010**	**2009**
At the beginning of the year	**27,120**	**26.328**
Profit for the year	4.568	1.572
Dividends declared by:	(1.164)	(1.053)
- Telecom Italia S.p.A.	*(1.029)*	*(1.029)*
- Other Group companies	*(135)*	

		(24)
Effect of capital transactions by Telecom Italia Media	*47*	-
Bond conversions, equity instruments granted and purchase of treasury shares	32	(9)
Change in scope of consolidation and other changes	2.007	282
At the end of the year	**32.610**	**27.120**

Net financial debt and cash flows

Net financial debt is composed as follows:

Net financial debt

(millions of euros)	**12/31/2010**	**12/31/2009**	**Change**
	(a)	(b)	(a-b)
NON-CURRENT FINANCIAL LIABILITIES			
Bonds	24,589		

26,369

(1,780)

Amounts due to banks, other financial payables and liabilities

8,317

8,863

(546)

Finance lease liabilities

1,442

1,565

(123)

34,348

36,797

(2,449)

CURRENT FINANCIAL LIABILITIES (*)

Bonds

4,989

3,667

1,322

Amounts due to banks, other financial payables and liabilities

	1,661	3,024	(1,363)
Finance lease liabilities	232	250	(18)
	6,882	**6,941**	**(59)**
Financial liabilities relating to Discontinued operations/Non-current assets held for sale	**-**	**659**	(659)
TOTAL GROSS FINANCIAL DEBT	**41,230**	**44,397**	**(3,167)**

NON-CURRENT FINANCIAL ASSETS	
Securities other than investments	
	(13)
	(15)
	2
Financial receivables and other non-current financial assets	
	(1,850)
	(1,104)
	(746)
	(1,863)
	(1,119)
	(744)
CURRENT FINANCIAL ASSETS	
Securities other than investments	
	(1,316)
	(1,843)

			527
Financial receivables and other current financial assets	(438)	(1,103)	665
Cash and cash equivalents	(5,526)	(5,504)	(22)
	(7,280)	**(8,450)**	**1,170**
Financial assets relating to Discontinued operations/Non-current assets held for sale	-	(81)	81
TOTAL FINANCIAL ASSETS	**(9,143)**	**(9,650)**	**507**

NET FINANCIAL DEBT CARRYING AMOUNT

32,087

34,747

(2,660)

Reversal of fair value measurement of derivatives and related financial assets/liabilities

(619)

(798)

179

ADJUSTED NET FINANCIAL DEBT

31,468

33,949

(2,481)

Detailed as follows:

TOTAL ADJUSTED GROSS FINANCIAL DEBT

39,383

42,980

(3,597)

TOTAL ADJUSTED FINANCIAL ASSETS

(7,915)

(9,031)

1,116

(*) of which current portion of medium/long-term debt:

Bonds

4,989

3,667

1,322

Amounts due to banks, other financial payables and liabilities

919

2,576

(1,657)

Finance lease liabilities

232

250

(18)

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing 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 exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in the range 60% - 70% for the fixed-rate component and 30% - 40% for the variable-rate component.

In managing market risks, the Group has adopted a Guideline policy for debt management using derivative instruments and mainly uses IRS and CCIRS derivative financial instruments.

The volatility of interest rates and exchange rates, featuring prominently in the financial markets beginning in the fourth quarter of 2008, significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities.

Having said this and in order to present a more realistic analysis of net financial debt, starting from the June 2009 report, in addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator is also presented denominated Adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. The measurement of derivative financial instruments, which also has the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an actual financial settlement.

Treasury policies

The Group employs a variety of instruments to finance its operations and raise liquidity. The main instruments used are bond issues, alongside committed and uncommitted bank lines.

Telecom Italia has a centralized treasury which operates in the interests of the entire Group:

-

allocating liquidity where necessary

-

mobilizing excess liquidity of 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 keeping a constant watch over cash flows and ensuring a more efficient use of liquidity in excess of requirements.

It should be noted that the acquisition of the controlling stake in the Sofora group, with its consequent entry in the scope of consolidation of the Telecom Italia Group, did not require any cash payment by the Telecom Italia Group. Moreover, at December 31, 2010, the Argentina Business Unit has cash resources for a net amount of 86 million euros, while net financial debt was approximately 15 million euros at the consolidation entry date.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2010:

(*) Fair value adjustment of derivatives and related financial assets and liabilities.

Net operating free cash flow

(millions of euros)	**2010**	**2009**	**Change**
EBITDA	11,412	11,115	297
Capital expenditures on an accrual basis	(4,583)	(4,543)	(40)
Change in net operating working capital:	(223)	(185)	

(38)

Change in inventories

96

(30)

126

Change in trade receivables and net amounts due on construction contracts

13

336

(323)

Change in trade payables (*)

(175)

(376)

201

Other changes in operating receivables/payables

(157)

(115)

(42)

Change in provisions for employees benefits

73

(173)

246

Change in operating provisions and Other changes	(466)	84	(550)
Net operating free cash flow	**6,213**	**6,298**	**(85)**
% of Revenues	*22.5*	*23.4*	*(0.9) pp*

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

In addition to what has already been described with reference to EBITDA, net operating free cash flow in 2010 has been particularly impacted by the following:

Capital expenditures on an accrual basis

The breakdown is as follows:

(millions of euros)	2010		2009		Change
		% of total		*% of total*	
Domestic	3,106	*67.8*	3,515	*77.4*	(409)
Brazil	1,216	*26.5*	964		

21.2

252

Media, Olivetti and Other Operations

76

1.7

64

1.4

12

Adjustments and Eliminations

(3)

(0.1)

-

-

(3)

Total consolidated capital expenditures

(excluding Argentina)

4,395

95.9

4,543

100.0

(148)

% of Revenues

16.4%

16.9%

(0.5) pp

Argentina

188

4.1

-

-

188

Total consolidated capital expenditures

4,583

100.0

4,543

100.0

40

% of Revenues

16.6%

16.9%

(0.3) pp

Capital expenditures in 2010 total 4,583 million euros, increasing 40 million euros compared to 2009. Specifically, the significant decrease in capital expenditures of the Domestic Business Unit (-409 million euros; -11.6%) benefits also from diffusion of the effects of the programs to cut costs and capital expenditures begun in 2009. However, such benefit is offset by the entry of the Argentina Business Unit in the scope of consolidation (+188 million euros) and the increase in capital expenditures by the Brazil Business Unit which is not only impacted by the change in the Brazilian real/euro exchange rate (+180 million euros) but also by higher investments for the expansion of the network and the IT platform.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during 2010 resulted in a positive effect on net financial debt at December 31, 2010 of 1,209 million euros (1,034 million euros at December 31, 2009).

Change in operating Provisions and the Telecom Italia Sparkle case

With reference to the Telecom Italia Sparkle case, it should be noted that on July 19, 2010, after an in-depth evaluation, also in light of the opinions expressed by authoritative professionals, the company decided to pay the reduced fine (25% instead of 100% of the amount fined) and the full amount of VAT considered non-deductible and the relative interest, for a total amount of 418 million euros.

The payment of such amount required the partial utilization of the Provision (equal to a total of 507 million euros) set aside in prior years. Specifically, operating free cash flow included an impact of 389 million euros for the change in operating provisions, whereas the remaining 29 million euros brought an impact on items of a non-operating nature, since it related to financial interest. Following the above payment, the bank surety at one time provided to the Tax Authorities of about 123 million euros was released.

Moreover, in August 2010, Telecom Italia Sparkle s appeal was upheld to revoke the seizure as a precautionary measure for the sum of 298 million euros (corresponding to the VAT receivable unlawfully deducted for the tax years relating to the alleged illegal activities under investigation) ordered by the Prosecutor s Office in Rome in February 2010. As a result, the restitution of such sums has been arranged, except for 10 million euros which will remain under seizure for precautionary reasons in connection with the criminal case in progress.

Further details are provided in the Note Litigations, Pending Legal Action and Other Information in the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

The following also had an effect on net financial debt during 2010:

Sale of investments and other disposals flow

Sale of investments and other disposals flow amounts to 973 million euros and mainly refers to:

.

for 811 million euros, the sale of HanseNet, inclusive of negative cash flow of about 50 million euros, generated by the company sold from January 1, 2010 to the date of sale (February 16, 2010);

.

for 35 million euros, transactions for the sale of Elettra, including collection for the sale of one of the ships owned by the company and the subsequent sale of the investment itself;

.

for 47 million euros, the sale of BBNed, inclusive of the net financial debt of the company sold;

.

for 71 million euros, the reimbursement received after reaching a settlement agreement between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

Share capital increases

Share capital increases amount to 67 million euros. Of that amount, 44 million euros refers to the share capital increase of Telecom Italia Media and 23 million euros to the share capital increase effected by the Parent, Telecom Italia S.p.A., as part of the broad-based employee share ownership Plan.

In particular:

.

the Telecom Italia Media capital increase ended in June 2010, for a total amount of 239.5 million euros. An amount of 44 million euros refers to the portion of Telecom Italia Media s capital increase, net of incidental charges, subscribed by the market, whereas the total remaining portion was subscribed by the Telecom Italia Group. Following the capital increase, the percentage holding in Telecom Italia Media s capital held by the Telecom Italia Group rose from 67.96% to 77.42%

.

as far as the share offer to employees is concerned, on July 29, 2010, 27,056,139 ordinary Telecom Italia were issued (equal to 0.20% of the class of stock and equal to 87% of the maximum amount of 31,000,000 ordinary shares voted by the board of directors on May 6, 2010 in execution of the mandate received from the shareholders meeting held on April 29, 2010).

The subscription period for the offer to the employees was from June 28 to July 9, 2010. Over 9,000 employees (about 16% of those entitled) subscribed to the shares. The ordinary shares were offered at a subscription price of 0.84 euros, corresponding to the arithmetic mean of the stock market prices of Telecom Italia ordinary shares between May 25, 2010 and June 25, 2010 on the Mercato Telematico Azionario (Electronic Stock Market), discounted by 10%.

Following this operation, the total number of Telecom Italia ordinary shares issued is 13,407,963,078 and the share capital of Telecom Italia is equal to 10,688,746,056.45 euros.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, made in 2010, for net finance expenses, income taxes and also the change in non-operating receivables and payables.

Gross financial debt

Bonds

Bonds at December 31, 2010 are recorded for 29,578 million euros (30,036 million euros at December 31, 2009). Their nominal repayment amount is 28,329 million euros, decreasing 777 million euros compared to December 31, 2009 (29,106 million euros).

The change in bonds during 2010 is as follows:

NEW ISSUES

(millions of original currency)	**Currency**	**Amount**	**Issue date**
Telecom Italia Finance S.A. 107.7 million euros Floating Rate Notes Euribor 3 months + 1.3% maturing 3/14/2012 (1)	Euro	107.715	3/12/2010
Telecom Italia S.p.A. 1,250 million euros			

5.25% maturing 2/10/2022

Euro

1,250

2/10/2010

(1) These bonds were issued as a result of the contract terms established by the current bonds denominated Telecom Italia Finance S.A. Euro 118,830,000 Guaranteed Floating Rate Extendable Notes due 2010 , net of 20 million euros repurchased by the Company in 2009. In fact, under the Terms and Conditions, the holders of the bonds for a nominal amount of 31,115,000 euros waived their right to extend the bonds maturity to 2012 and were reimbursed for that amount on June 14, 2010. For the remaining amount of 107,715,000 euros, bonds were issued on March 12, 2010

denominated Telecom Italia Finance S.A. Euro 107,715,000 Guaranteed Floating Rate Extendable Notes due 2012 maturing on March 14, 2012.

REPAYMENTS

(millions of original currency)

	Currency	**Amount**	**Repayment date**
Telecom Italia Capital S.A. 4.875% 700 million dollars, issued with a guarantee from Telecom Italia S.p.A.	USD	700	10/1/2010
Telecom Italia Finance Floating			

Rate Notes 138.83 million euros

3-month Euribor + 1.30% (2)

Euro

138.83

6/14/2010

Telecom Italia S.p.A. Floating Rate Notes 796 million euros

3-month Euribor + 0.20% (3)

Euro

796

6/7/2010

Telecom Italia Capital S.A. 4% 1,250 million dollars, issued with a guarantee from Telecom Italia S.p.A.

USD

1,250

1/15/2010

Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium

Euro

574

1/1/2010

(2) These bonds were repaid as a result of the contract terms established by the current bonds denominated Telecom Italia Finance S.A. Euro 118,830,000 Guaranteed Floating Rate Extendable Notes due 2010 , net of 20 million euros repurchased by the Company in 2009. In fact, under the Terms and Conditions, the holders of the bonds for a nominal amount of 31,115,000 euros waived their right to extend the bonds maturity to 2012 and were reimbursed for that amount on June 14, 2010. For the remaining amount of 107,715,000 euros, bonds have been issued on March 12, 2010 denominated Telecom Italia Finance S.A. Euro

107,715,000 Guaranteed Floating Rate Extendable Notes due 2012 maturing on March 14, 2012.

(3) Net of 54 million euros bought back by the Company during 2009.

BUYBACKS

As occurred in 2008 and 2009, in 2010, the Telecom Italia Group bought back bonds 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 inviting any additional risks.

In particular, the following bonds were repurchased:

(millions of original currency)

	Currency	Amount	Buyback period
Telecom Italia Finance S.A. 1,884 million euros 7.50% maturing April 2011 (4)	Euro		

113.432

January - May 2010

(4) In October 2009, an amount of 2,683 million euros had already been bought back. The total amount bought back in 2009 and 2010 is therefore 116.115 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2010 is equal to 305 million euros and decreased by 43 million euros compared to December 31, 2009 (348 million euros).

***

Revolving Credit Facility and Term Loan

The following table shows the composition and the drawdown of the syndicated committed credit lines available at December 31, 2010. These are represented by the Revolving Credit Facility for a total of 8 billion euros expiring August 2014 and the new syndicated revolving line for a total of 1.25 billion euros signed February 12, 2010 and expiring February 2013. In January 2010, the syndicated line denominated Term Loan 2010 for 1.5 billion euros became due and was repaid with cash resources:

12/31/2010

12/31/2009

(billions of euros)

Agreed

Drawn down

Agreed

	Drawn down
Term Loan expiring 2010	--
	--
	1.5
	1.5
Revolving Credit Facility expiring 2013	1.25
	--
	--
	--
Revolving Credit Facility expiring 2014	8.0
	1.5
	8.0
	1.5

Total
9.25
1.5
9.5
3.0

Lehman Brothers Bankhaus AG London Branch bank is the Lender of the Revolving Credit Facility expiring 2014 with a commitment of 19 million euros and an amount disbursed of 3.5 million euros.

The bank s commitment under the Term Loan of 19.9 million euros, disbursed in full, was duly repaid on the loan s expiration date of January 28, 2010.

With regard to Lehman Brothers Bankhaus AG s commitment, 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, entails changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc..

On July 14, 2010, a bilateral stand-by credit line was secured for 120 million euros for a period of 18 months (expiring January 13, 2012) from Banca Regionale Europea and has been completely drawn down.

On December 20, 2010, a revolving bilateral credit line was secured for 200 million euros for a period of 18 months (expiring June 19, 2012) from Unicredit S.p.A., drawn down for 120 million euros.

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 7.55 years.

The average cost of the Group s debt, considered as the cost for the period calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.2%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amount, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

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 6,841 million euros at December 31, 2010 (7,347 million euros at December 31, 2009) which, together with its unused committed credit lines for 7.8 billion euros, allows the Group to amply meet its repayment obligations over the next 24 months. Notwithstanding the amount of the financing repayments made in the first nine months of 2010 (about 5.8 billion euros), cash provided by operating activities and the new bond issues enable the Group to maintain an adequate level of liquidity.

In particular:

·

Cash and cash equivalents amount to 5,526 million euros (5,504 million euros at December 31, 2009). The different technical forms of investing available cash at December 31, 2010, which include euro commercial paper for 215 million euros, can be analyzed as follows:

-

Maturities: investments have a maximum maturity of three months;

-

Counterpart risk: investments are made with leading banking, financial and industrial institutions with high-credit-quality and at least an A- rating. Investments by companies in South America have been made with leading local counterparts;

-

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

·

Securities other than investments amount to 1,316 million euros (1,843 million euros at December 31, 2009). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. These mainly consist of 1,159 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (with A ratings by S&P s) and 149 million euros of bonds issued by counterparts with a rating of at least BBB+ with different maturities, but all with an active market, that is, readily convertible into cash.

In the **fourth quarter of 2010, adjusted net financial debt** decreased 1,517 million euros. The effects of the positive changes in operations in addition to the consolidation of the Sofora group were only partly absorbed by tax payments.

Adjusted net financial debt

(millions of euros)	12/31/2010	9/30/2010	Change
NET FINANCIAL DEBT CARRYING AMOUNT	**32,087**	**33,773**	**(1,686)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(619)*	*(788)*	*169*
ADJUSTED NET FINANCIAL DEBT	**31,468**	**32,985**	

(1,517)

Breakdown as follows:

TOTAL ADJUSTED GROSS FINANCIAL DEBT

39,383

39,335

48

TOTAL ADJUSTED NET FINANCIAL ASSETS

(7,915)

(6,350)

(1,565)

Research and Development

As for Research and Development, this area is discussed in a specific paragraph of the Sustainability Section under The Community in this Report on Operations.

Events Subsequent to December 31, 2010

With regard to subsequent events, reference should be made to the specific Note Events subsequent to December 31, 2010 in the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

Business Outlook for the Year 2011

As for the Telecom Italia Group s outlook for the current year, the objectives linked with the principal economic indicators, as outlined in the Business Plan 2011-2013, are, for the full year 2011:

.

Organic revenues and EBITDA basically stable compared to 2010 (considering the Argentina Business Unit consolidated for 12 months);

.

Capital expenditures: approximately 4.8 billion euros;

.

Adjusted net financial debt: about 29.5 billion euros at the end 2011.

Principal risks and uncertainties

The business outlook for 2011 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

The following are the main risks and uncertainties concerning the Telecom Italia Group s activities in 2011.

Macroeconomic trend

In 2011, growth of the Italian economy should be on levels similar to those recorded in 2010. In fact, despite expectations of a further growth in exports, weak internal demand and policies reducing the public debt will adversely affect the intensity of recovery. Private consumption, in particular, will continue to be affected by a strong uncertainty over the employment situation and a possible rise in interest rates.

As far as the South American market is concerned, especially in reference to Brazil and Argentina, the recovery recorded in 2010, after the contraction displayed following the world financial crisis, is expected to be confirmed in 2011.

In Brazil, in particular, trade levels in 2010 exceeded the levels reached before the financial crisis, with raw materials accounting for a higher share of total exports; a possible fall in raw materials prices could jeopardize growth. In general, Asia and Europe represent the most important export markets for the country. On the internal market front, the trend of increasing disposable income for the more than 100 million middle class citizens (Segment C) represents a sustaining factor in the future growth of the country; possible slowdowns in the trend could reflect on the demand for telecommunications services.

In Argentina, the inflation level has risen since 2005, remaining relatively high from 2006 to 2010. The recent gains recorded in the economy could produce a rise in inflation, which could lead to a downturn in consumption, including those of telecommunications services.

However, regarding the forthcoming presidential elections in 2011, there exists uncertainty over the future evolution of the political and economic context of the country.

Telecommunications market trend

In the Domestic market, Telecommunications affirms itself as the sector fundamental to contemporary society Telecommunications today is characterized by a pervasive and inescapable role, thanks also to the increasingly-growing contribution of innovative services centered on mobile and fixed broadband, and for this reason only to a limited extent subject to a procyclical trend. A less favorable evolution than today s foreseeable macroeconomic context could however impact customers spending capacity, particular in the Business segment.

In a scenario of fierce competition and a high degree of innovation, characterized by a growing complexity encouraged also by convergence among the TLC, IT, Media and Consumer Electronics markets, competitive changes featuring a singular aggressiveness could give rise to pressure over the prices of traditional and innovative services.

Moreover, affirming themselves in the market are new subjects (Over the Top) which adopt business models that are different to traditional telecommunications operators and hence could erode revenue shares.

The market of telecommunications in Brazil is primed for further growth, especially in the mobile telephony market, with the acceleration of the replacement of fixed with mobile telephony. Mobile broadband increasingly represents a particularly competitive alternative to fixed broadband owing both to the features of fixed networks and the geographical peculiarities of the country. A possibly less favorable evolution of the macroeconomic and competitive context compared with expectations could lead to a lower growth of the telecommunications market.

As far as the telecommunications market in Argentina is concerned, fixed voice telephony services are expected to remain stable, being that this is a substantially mature market; there continues an expectation of significant growth for both fixed and mobile broadband services.

Nevertheless, the implementation of number portability in Argentina by the end of 2011 could lead to a higher level of competition in the mobile business, insofar as it could give rise to aggressive customer retention and loyalty initiatives on the part of Argentine mobile operators.

Financial risks

On January 25, 2011, Telecom Italia S.p.A. has already proceeded to carry out transactions to refinance its debt by issuing bonds for 1,000 million euros, 5.125% annual coupon, maturing January 25, 2016.

The Telecom Italia Group pursues a policy of managing financial risks (market risk, credit risk and liquidity risk) by the definition, at a central level, of guidelines for directing operations, the identification of the most suitable financial instruments to reach prefixed objectives, the monitoring of the results achieved and the exclusion of the use of financial instruments for speculative purposes.

Furthermore, the Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a treasury margin to cover refinancing requirements at least for the next 12-18 months with liquidity and committed syndicated credit lines.

The particular climate of the financial markets has persuaded the Telecom Italia Group to adopt a more conservative approach than the aforementioned policy and at the end of 2010 the Group has a treasury margin able to meet debt repayment obligations for the next 24 months. Consequently, the Telecom Italia Group can wait for the most appropriate time to access the financial markets. Further details are provided in the Note Financial risk management to the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

Consolidated Financial Statements   Telecom Italia Group

Separate Consolidated Income Statements

Consolidated Statements of Comprehensive Income

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

Consolidated Statements of Financial Position

Consolidated Statements of Cash Flows

Additional Cash Flow Information

The data of the Telecom Italia Group are presented in this Annual Report based on 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), the operations of the Telecom Italia Sparkle group (international wholesale) as well as the relative support activities;

- **Brazil** Business Unit: includes mobile (TIM Brasil) and fixed (Intelig) telecommunications operations in Brazil;

- **Argentina** Business Unit: comprises fixed (Telecom Argentina) and mobile (Telecom Personal) telecommunications operations in Argentina, and mobile (Nucleo) telecommunications operations in Paraguay;

- **Media** Business Unit: includes television network operations and management;

- **Olivetti** Business Unit: includes manufacturing operations for digital printing systems, office products and Information Technology services;

- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Following the sale in February 2010 of HanseNet, which had already been classified in Discontinued operations, the European Broadband Business Unit is no longer presented. The other companies of that Business Unit were included in Other Operations until their sale in October 2010.

Beginning January 1, 2010, the companies Shared Service Center and HR Services, previously consolidated under Other Operations, are now consolidated in the Domestic Business Unit. For purposes of comparison, the disclosure by operating segment for the periods under comparison has been appropriately reclassified:

	Revenues	EBITDA	EBIT	Capital expenditures	Headcount at year-end (number)
(millions of euros)					
	2010	2009	2010	2009	2010

2009

2010

2009

2010

2009

Domestic

20,068

21,663

9,393

9,883

5,162

5,393

3,106

3,515

56,530

59,367

Brazil

6,199

4,753

1,801

1,255

685

209

1,216

964

10,114

9,783

Argentina

798

-

245

-

105

-

188

-

15,650

-

Media

258

230

13

(9)

(92)

(80)

67

53

777

757

Olivetti

391

350

(19)

(14)

(24)

(19)

5

4

1,090

1,098

Other Operations

64

90

(21)

(3)

(38)

(30)
4
7
39
379
Adjustments and Eliminations
(207)
(192)
-
3
15
20
(3)
-
-
-
Consolidated total
27,571
26,894
11,412
11,115
5,813
5,493
4,583

4,543
84,200
71,384

The main operating data of the Telecom Italia Group Business Units are presented in the following table:

	12/31/2010	12/31/2009	12/31/2008
DOMESTIC FIXED			
Fixed-line network connections in Italy at year-end (thousands)	17,609	18,525	20,031
Physical accesses (Consumer+Business) at year-end (thousands)	15,351	16,097	17,352

Voice pricing plans (thousands)	5,734	5,417	5,834
Broadband accesses in Italy at year-end (thousands)	9,058	8,741	8,134
of which retail accesses (thousands)	*7,175*	*7,000*	*6,754*
Virgilio average daily page views during period (millions)	45.5	44.7	44.8
Virgilio average daily single visitors (millions)	3.7	3.2	2.5
Network infrastructure in Italy:			

- access network in copper (millions of km - pair)	111.7	110.5	109.3
- access and carrier network in optical fiber (millions of km - fiber)	4.3	4.1	3.9

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)

121.5

134.4

144.3

- National traffic

104.1

115.6

125.3

- International traffic

17.4

18.8

19.0

DOMESTIC MOBILE

Number of lines at year-end (thousands)

31,018

		30,856	34,797
of which prepaid lines (thousands) ([1])	*24,090*	*24,398*	*28,660*
Change in lines (%)	0.5	(11.3)	(4.2)
Churn rate (%) ([2])	22.0	29.4	23.6
Total outgoing traffic per month (millions of minutes)	3,305	2,982	3,054
Total average outgoing and incoming traffic per month (millions of minutes)	4,597	4,260	4,316
Average monthly revenues per line (euro) (3)	19.7	20.0	20.0

BRAZIL

Number of lines at year-end (thousands)

51,015

41,102

36,402

ARGENTINA (*)

Number of fixed lines at year-end (thousands)

4,107

4,060

4,010

Number of mobile lines at year-end (thousands)

	18,211
	16,281
	14,390
Broadband accesses at year-end (thousands)	
	1,380
	1,214
	1,032

MEDIA

La7 audience share Free to Air (analog mode) (average during period, in %)	
	3.1
	3.0
	3.1
La7 audience share Free to Air (analog mode) (average of last month of year, in %)	
	3.0
	2.9
	3.0

(1) Excluding not human SIMs.

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

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

(*) Operating data of the Argentina Business Unit for the years 2008 2009 are only reported for illustrative purposes. The Argentina Business Unit has been consolidated by the Telecom Italia Group from the date of October 13, 2010.

The Business Units of the Telecom Italia Group

Domestic

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

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

(*) Principal companies: Telecom Italia S.p.A., Matrix S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., Path.Net S.p.A., HR Services S.r.l., Shared Service Center S.r.l.

As regards the new customer - centric organization which the Telecom Italia Group has adopted for the domestic market since 2009, the manner of representing the Business Unit has changed since that presented in the 2008 annual report in which such information had been organized by fixed and mobile technology . For 2010, details of revenues will also still be reported by fixed and mobile technology.

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

- **Core Domestic:** Core Domestic includes all telecommunications activities inherent 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 infrasegment 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 persons and families in the fixed and mobile telecommunications markets, public telephony and web portal/services by the company Matrix;

- **Business**: Business is constituted by the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (Small and Medium Enterprises) and SOHOs (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 Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;

•

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

•

Other (support structures): Other includes:

§

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

§

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

•

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

Main operating and financial data

Key results in 2010 by the Domestic Business Unit overall and by segment of clientele and business compared to 2009 are presented in the following tables. Starting from January 1, 2010, the companies HR Services and Shared Service Center are consolidated in the Domestic Business Unit. These companies activities largely relate to services provided internally to the Business Unit. The data for comparative periods have been appropriately reclassified.

Domestic Business Unit

(millions of euros)	**2010**	**2009**	**Change** (amount)	%	% organic
Revenues	20,068	21,663	(1,595)	(7.4)	(7.4)
EBITDA	9,393				

9,883

(490)

(5.0)

(2.9)

EBITDA margin

46.8

45.6

1.2 pp

2.3 pp

EBIT

5,162

5,393

(231)

(4.3)

(1.6)

EBIT margin

25.7

24.9

0.8 pp

1.6 pp

Capital expenditures

3,106

3,515

(409)

(11.6)

Headcount at year-end (number)

56,530

59,367

(2,837)

(4.8)

Core Domestic

(millions of euros)

2010

2009

Change

(amount)

%

% organic

Revenues [1]	19,065	20,580	(1,515)
. Consumer	*9,739*	*10,999*	*(1,260)*
. Business	*3,509*	*3,730*	
. Top	*3,511*	*3,688*	
. National Wholesale	*2,076*	*1,996*	
. Other	*230*	*167*	

(221)

(177)

80

63

(7.4)

(11.5)

(5.9)

(4.8)

4.0

n.s.

(7.4)

(11.5)

(6.0)

(4.8)

3.7

n.s.

EBITDA

9,104

9,549

(445)

(4.7)

(2.6)

EBITDA margin

47.8

46.4

1.4 pp

2.5 pp

EBIT

4,967

5,189

(222)

(4.3)

(1.2)

EBIT margin

26.1

25.2

0.9 pp

1.8 pp

Capital expenditures

3,027

3,427

(400)

(11.7)

Headcount at year-end (number)

55,475

58,098

(2,623)

(4.5)

([1]) The amounts indicated are net of infrasegment transactions.

International Wholesale

(millions of euros)

2010

2009

Change

(amount)

%

% organic

Revenues	1,569	1,710	(141)	(8.2)	(8.4)
of which third parties	*1,099*	*1,208*	*(109)*	*(9.0)*	*(9.2)*
EBITDA	300	350	(50)	(14.3)	(12.2)
EBITDA margin	*19.1*	*20.5*			*(1.4 pp)*

(0.9 pp)

EBIT

194

209

(15)

(7.2)

(12.3)

EBIT margin

12,4

12,2

0.2 pp

(0.5 pp)

Capital expenditures

82

122

(40)

(32.8)

Headcount at year-end (number)

1,055

1,269

(214)

(16.9)

Revenues

In particular, as regards the market segments, for the year 2010, the following changes compared to 2009 are noted:

- **Consumer**: the reduction in revenues of the Consumer segment is 1,260 million euros (-11.5%), of which 1,003 million euros (-9.5%) refers to service revenues and 257 million euros to product revenues. The decrease in service revenues is almost entirely attributable to the contraction in traditional voice service revenues, particularly Fixed-line voice (-394 million euros, of which -212 million euros refers to traffic and -123 million euros to access revenues), and outgoing Mobile voice (-486 million euros). The Consumer segment, in fact, continues to feature fierce competition and to meet this challenge new sales policies were introduced as early as the end of 2009 aimed at recovering competitiveness through packages offering clearer and more convenient rate plans. Thanks to such actions during the year, the decline in the customer base was halted, creating the premises for an improvement in the trend over the next months. The decrease in sales is also attributable to the trend in Mobile termination revenues (-168 million euros, of which -111 million euros can be traced to the effect of the reduction in rates) and text messaging revenues (-84 million euros, driven by the same factors indicated above for outgoing voice revenues). Instead, internet services record a positive change compared to 2009, thanks to the continuing growth of both Fixed (+75 million euros of ADSL access revenues), and Mobile (+47 million euros) broadband services;

- **Business**: the Business segment records a reduction in revenues of 221 million euros (-5.9%), affirming a gradually recovering trend noted in the previous quarters and considerably improving over the contraction reported in the prior year (-9.6%). This improved performance, more marked in the fixed than the mobile area, is the outcome of the marketing policies begun in the second half of 2009, especially with the *Impresa Semplice* brand, geared to reducing the erosion of the fixed and mobile customer base and achieving a better quality of customer acquisitions. In the Fixed area, the customer base of voice accesses in 2010 is down by about 106,000 accesses, with a contraction that is lower than in 2009 (about -235,000 accesses), of which about 27,000 in the fourth quarter. Broadband accesses grew by 67,000 (+38,000 in 2009) on an annual basis, of which about 12,000 in the fourth quarter. In the Mobile area, the annual increase is 294,000 lines, of which 73,000 in the fourth quarter;

- **Top:** the Top segment records a decrease in revenues of 177 million euros (-4.8%) with a gradually recovering trend compared to previous quarters thanks especially to the last quarter. Revenues in the Fixed area show a contraction of 7.8% due to the difficulties affecting the Voice and Data areas as a result of the overall macroeconomic situation and the growing pressure on prices. The ICT area, instead, is basically keeping steady on account of customized plans designed on the basis of client needs. In the Mobile area, revenues continue to grow (+7.8%) aided by the continuing expansion of the customer base and the increase of VAS (about +16.4%).

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National Wholesale: the increase in revenues (+80 million euros, +4.0%) is generated by the growth of the customer base of the OLOs (Other Licensed Operators) in the services of Local Loop Unbundling, Wholesale Line Rental and Bitstream.

International Wholesale Revenues

In 2010, International Wholesale (the Telecom Italia Sparkle group) reported revenues of 1,569 million euros, down 141 million euros (-8.2%) compared to 2009. The decline is almost entirely due to the voice business (-132 million euros) which is penalized by strong price pressure caused by market competitiveness and also measures taken to rationalize the sector based on a more selective approach to the client portfolio. IP&Data revenues are basically in alignment with the prior year whereas Multinational Client Services revenues grew slightly. It should be recalled that the company Elettra was sold on September 30, 2010. Elettra contributed to International Wholesale revenues only for the first nine months of 2010 and not for the entire year as in 2009 (the contribution of revenues to the Group for the fourth quarter of 2009 had amounted to 9 million euros).

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Besides the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below as a continuation of the information presented in the annual and interim reports of the previous periods.

Revenues of the Business Unit by technology and market segment are reported below:

(millions of euros)
2010
2009
Change %

Market segment
Total
Fixed(*)
Mobile(*)
Total
Fixed(*)
Mobile(*)
Total
Fixed(*)
Mobile(*)

Consumer

9,739

4,674

5,275

10,999

5,037

6,251

(11.5)

(7.2)

(15.6)

Business

3,509

2,336

1,220

3,730

2,472

1,315

(5.9)

(5.5)

(7.2)

Top

3,511

2,724

887

3,688

2,956

823
(4.8)
(7.8)
7.8
National Wholesale
2,076
2,934
234
1,996
2,758
194
4.0
6.4
20.6
Other (support structures)
230
201
76
167
174
14
n.s.
n.s.
n.s.

Total Core Domestic
19,065
12,869
7,692
20,580
13,397
8,597
(7.4)
(3.9)
(10.5)
International Wholesale
1,569
1,569
1,710
1,710
(8.2)
(8.2)
Eliminations
(566)
(322)
(627)

(368)
n.s.
n.s.
Total Domestic
20,068
14,116
7,692
21,663
14,739
8,597
(7.4)
(4.2)
(10.5)

(*) The breakdown by fixed and mobile technology is presented gross of intersegment eliminations.

Fixed Telecommunications Revenues

In 2010, fixed telecommunications revenues amount to 14,116 million euros, decreasing 623 million euros (-4.2%) compared to the prior year. The organic change in these revenues is a reduction of 635 million euros (-4.3%). This performance can principally be attributed to a contraction in traditional Voice revenues which were only partly compensated by the increase in internet revenues.

At December 31, 2010, the number of retail voice accesses is 15.4 million; the trend of line reductions improved in the fourth quarter of 2010 (-233,000 lines) compared to the same period of 2009 (-260,000). In total, line reductions for 2010 are 746,000, lower by 509,000 compared to 2009 (-1,255,000).

The Wholesale customer portfolio grew and reached approximately 6.8 million accesses (+613,000 compared to December 31, 2009).

The total Broadband portfolio at December 31, 2010 is approximately 9.1 million accesses (+317,000 compared to December 31, 2009), of which wholesale accesses are about 1.9 million.

The following chart shows the trend of revenues in the major business areas:

<u>Retail Voice</u>

2010

2009

Change

(millions of euros)

% of total

% of total

amount

%

Traffic

2,358

38.4

2,726

40.1

(368)

(13.5)

Accesses

3,262

53.2

3,491

51.3

(229)

(6.6)

VAS voice services

177

2.9

207

3.0

(30)

(14.5)

Voice products

336

5.5

380

5.6

(44)

(11.6)

Total Retail Voice

6,133

100.0

6,804

100.0

(671)

(9.9)

Retail Voice revenues, in all market segments, show an ongoing reduction in the customer base, nevertheless displaying a constant slowdown thanks partly to the launch of the new *Voce senza limiti* customer plans in the Consumer segment. Added to this is the effect of replacing Fixed with Mobile and the reduction in the regulated fixed-mobile termination rates. Nevertheless, the decrease in revenues from accesses in the retail area (-229 million euros) is compensated in part, in the domestic business, by the increase in national Wholesale services (+95 million euros for regulated intermediate services such as Local Loop Unbundling and Wholesale Line Rentals).

Internet

	2010		2009		Change	
(millions of euros)		*% of total*		*% of total*	amount	%
Total Internet	**1,751**	*100.0*	**1,707**	*100.0*	44	2.6

of which content/portal
117
6.7
144
8.4
(27)
(18.8)

Internet revenues total 1,751 million euros, increasing 44 million euros (+2.6%) compared to 2009, thanks to the growth of broadband, with the total domestic retail broadband access portfolio reaching 7.2 million accesses, up 175,000 units compared to the end of 2009. Flat-rate packages now account for 86% (83% at the end of 2009) thanks in part to developing new plans aimed at the Consumer segment: Internet senza limiti and Tutto senza limiti . The decrease in revenues of the content/portal component (-27 million euros, -18.8% compared to 2009) can be traced principally to the contraction in revenues from the resale of content (starting from July 2010, the sales/purchases contracts on soccer rights ended and were not renewed) and to a lesser extent to the reduction in revenues for purchases of content on the Rosso Alice portal and the IPTV platform. During 2010, a complete review was begun of the content offering strategy that will be based - through the launch of the new Cubo Vision product/service on an integrated IPTV-OTTV approach and extended to all ADSL customers, with supply agreements based on a revenue share model.

Business Data

2010
2009

				Change	
(millions of euros)		*% of total*		*% of total*	amount	*%*
Leased lines	163	*9.8*	190	*11.0*	(27)	(14.2)
Data transmission	473	*28.7*	505			

29.2

(32)

(6.3)

Data products

201

12.1

204

11.8

(3)

(1.5)

ICT

818

49.4

831

48.0

(13)

(1.6)

of which ICT services

503

510

(7)

(1.4)

of which ICT products	*315*		*321*		*(6)*	*(1.9)*
Total Business Data	**1,655**	*100.0*	**1,730**	*100.0*	(75)	(4.3)

Business Data revenues fell 75 million euros (-4.3%) compared to 2009. The change reflects the current negative economic picture and the contraction of prices for traditional leased lines and data transmission businesses. Specifically, the reduction of revenues in the ICT area is 13 million euros (-1.6%) owing to the slump in product sales (-6 million euros, in connection with the policy focusing on revenues with a higher margin) and also in the services area (-7 million euros). The reason for the decrease recorded in Services (-1.4%) is the decline in corporate spending, also in the ICT area, owing to the difficult overall economic situation. In particular, companies have applied efficiency strategies which combine minor costs and higher technological levels. This is a favorable context for the spread of services on owned platforms such as Cloud Computing, a strategic objective of companies for the future.

Wholesale

2010

2009

Change

(millions of euros)

% of total

% of total

amount

%

National Wholesale

3,053

73.2

2,888

70.1

165

5.7

International Wholesale (*)

	1,118
	26.8
	1,229
	29.9
	(111)
	(9.0)
Total Wholesale	
	4,171
	100.0
	4,117
	100.0
	54
	1.3

(*) Includes sales to the third-party market and the domestic mobile telecommunications component.

The customer portfolio of Telecom Italia s National Wholesale division reached 6.8 million accesses for voice services and about 1.9 million for broadband services at the end of 2010.

On the whole, revenues from national Wholesale services show an increase of 165 million euros (+5.7%) compared to 2009. The change in Wholesale revenues is related to the expansion of the customer base of alternative operators served through the various types of accesses.

Mobile Telecommunications Revenues

Mobile telecommunications revenues total 7,692 million euros in 2010, decreasing 905 million euros (-10.5%) compared to 2009: revenues from services posted a decline of 8.4% and product revenues a contraction of 46.9%.

At December 31, 2010, the number of Telecom Italia mobile lines is about 31.0 million, recording an increase of 162,000 lines compared to December 31, 2009, following several years of decline. The following chart summarizes the trend of the main types of revenues:

Outgoing Voice

Outgoing Voice revenues total 4,033 million euros, decreasing 550 million euros (-12.0%) compared to 2009. The sales policies begun in the fourth quarter of 2009, geared to bringing rate plans to more competitive levels, particularly encouraging traffic within the TIM customer community, has not yet produced a recovery of volumes such as to compensate the reduction in prices. It should be noted that compared to the first nine months of 2010, where a -12.5% change was recorded in revenues against a +6.7% increase in traffic volumes, in the fourth quarter an improvement in the trend was posted with a -10.2% change in revenues and a +20.1% increase in traffic volumes.

Incoming Voice

Incoming Voice revenues amount to 1,358 million euros, decreasing 152 million euros (-10.1%) compared to 2009, principally due to the reduction in termination prices on the mobile network (-142 million euros in the retail area).

Value-Added Services (VAS)

Value-added services (VAS) revenues amount to 2,045 million euros, increasing 1.1% compared to 2009. Such growth is primarily attributable to interactive VAS (+8.4%), thanks especially to the contribution made by Browsing revenues (+13.2%). The ratio of VAS revenues to revenues from services is 27.5%, compared to 25% in the two previous years.

Handset Sales

Handset Sales revenues are 256 million euros, decreasing 226 million euros (-46.9%) compared to 2009. With a strategy aimed at rationalizing the product portfolio in order to recover profitability and strong competitive pressure from the free market for mobile handsets which marked the first eleven months of 2010, in December an inversion of the trend was noted in the sales of the latest generation of handset devices (smartphones and tablets). As for 2011, such change is expected to be consolidated with a growth and increasingly higher number of sales of handsets that can access the new internet services.

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EBITDA

EBITDA of the Domestic Business Unit in 2010 is 9,393 million euros, decreasing 490 million euros compared to 2009 (-5.0%). The EBITDA margin is 46.8%, up 1.2 percentage points over 2009. The contraction in revenues is partly compensated by selective control over commercial expenses and rigorous fixed-cost cutting measures.

Organic EBITDA is 9,774 million euros (-290 million euros, -2.9% compared to 2009); the organic EBITDA margin is 48.7% (46.4% in 2009).

Details are as follows:

(millions of euros)			
	2010	**2009**	**Change**

HISTORICAL EBITDA	
	9,393
	9,883
	(490)
Exchange rate effect	
	-
	4
	(4)
Changes in the scope of consolidation	
	-
	(2)
	2
Non-organic (income) expenses	
	381
	179
	202
Disputes and settlements	
	91
	154
	(63)
Mobility expenses under Law	

223/91	*254*	*-*	*254*
Other	*36*	*25*	*11*
COMPARABLE EBITDA	**9,774**	**10,064**	**(290)**

With regard to changes in costs, the following is noted:

(millions of euros)	**2010**	**2009**	**Change**
Acquisition of goods and services	7,131		

8,340

(1,209)

Employee benefits expenses

3,473

3,370

103

Other operating expenses

709

849

(140)

In particular:

.

acquisition of goods and services decreases 1,209 million euros (-14.5%) compared to 2009. Such contraction is mainly due to a reduction in the amounts to be paid to other operators owing to the effect of the development of the Community TIM rate plans and the reduction in the termination rates of voice calls on the network of other operators from fixed and mobile networks. Lower purchases of equipment for resale also contributed to the reduction, particularly the cost of handsets on account of the new mobile marketing policy. Commercial expenses for customer acquisition costs are also down thanks to the Group s strategy of focusing on higher-value customers. Fixed costs, too, were also the focus of the effective reduction and rationalization actions begun in prior years;

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employee benefits expenses increased 103 million euros compared to 2009. While ordinary employee benefits expenses decreased by 151 million euros, mostly due to the reduction in the average headcount of the salaried workforce (-3,148 persons compared to December 31, 2009, of whom - 565 persons are under solidarity contracts in Telecom Italia S.p.A. and Shared Service Center), higher expenses were incurred for mobility under Law 223/1991 for 254 million euros, following the agreement signed with the labor unions by Telecom Italia S.p.A on August 4, 2010, by Telecom Italia Sparkle on December 7, 2010 and by Shared Service Center on November 16, 2010;

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other operating expenses decrease 140 million euros compared to 2009, mainly as a result of the reduction in writedowns and expenses in connection with credit management.

EBIT

EBIT is 5,162 million euros, decreasing 231 million euros (-4.3%) compared to 2009. The EBIT margin is 25.7% (24.9% in 2009). EBIT, apart from the factors commented under EBITDA, benefits from a decrease in depreciation and amortization charges of 207 million euros following the reduction in amortizable assets as a result of lower capital expenditures in recent years.

The organic change in EBIT is a negative 87 million euros (-1.6% compared to 2009); the organic EBIT margin is 27.5% (25.9% in 2009). Details are as follows:

(millions of euros)	**2010**	**2009**	**Change**
HISTORICAL EBIT	**5,162**	**5,393**	**(231)**
Exchange rate effect			

	-
	2
	(2)
Non-organic (income) expenses	363
	217
	146
Non-organic expenses already described under EBITDA	*381*
	179
	202
Gain on non-current assets and investments	*(19)*
	-
	(19)
Impairment of intangible assets	-
	38
	(38)
Other	*1*

	-
	1
	COMPARABLE EBIT
	5,525
	5,612
	(87)

Specifically, the gain, net of the relative transaction costs, for a total of 19 million euros, is in connection with the completion of the transactions for the sale of the entire investment holding (equal to 70%) in Elettra, realized through the sale of one of the ships and the subsequent disposal of the investment by the International Wholesale business unit.

Capital expenditures

Capital expenditures total 3,106 million euros, decreasing 409 million euros compared to 2009, principally due to the impact of the purchase in 2009 of part of the IPSE frequencies (89 million euros) and the continuation of the plans for the optimization and rationalization of capital expenditures particularly with respect to Network Platforms, Service Platforms, IT and Service Creation. Also contributing to the reduction is the new commercial policy regarding mobile handsets which is more selective and focused on high-value customers.

The percentage of capital expenditures to revenues is 15.5% (16.2% in 2009).

Headcount

Headcount is 56,530, with a reduction of 2,837 compared to December 31, 2009; the figure includes 8 persons with temp work contracts (5 at December 31, 2009).

Commercial Developments

TOP Private Customers

- **Monte dei Paschi di Siena bank:** the project relates to the updating of the contract for data transmission and outsourcing services to Monte dei Paschi di Siena and to the acquisition of the network of the customer Banca Antonveneta . The contract which is for three and a half years, has a total value of 57 million euros.

- **INTESA SANPAOLO bank**: the project relates to the bid for the renewal of the agreement for the provision of fixed-line telecommunications services (voice, data and outsourcing). The new contract has a duration of four years and is for a total value of about 140 million euros.

- **Assicurazioni Generali:** in September, a contract was signed with Generali Business Solutions for the Re-engineering of the Generali Data Center at Mogliano Veneto. The contract calls for the Facility Management Outsourcing of the customer s Mainframe and the housing of the Open machines with the creation of a geographical campus between the client s site at Mogliano Veneto and the Telecom Italia Data Center at Padua. The computer production of the Generali group will be based on the machines allocated at each of the sites, functioning in parallel, with connectivity between them using broadband fiber-optics data lines. The computer and network architecture, as designed, displays highly innovative functional characteristics and exploits the potential of the Telecom Italia Data Center, which constitutes one of the basic elements in the proposition of Telecom Italia s Cloud Computing offering (La Nuvola Italiana). The contract is for a period of 10 years for a total value of 188 million euros.

- **UBI Banca:** a five-year contract has been signed with the customer UBI for Outsourcing Printing Services. The contract includes the installation at the more than 2,100 branches of the UBI group and at the management headquarters of 5,700 new generation photocopying machines, the management and monitoring of the printing service, the maintenance of the installed machines including consumable materials and the governance of the entire service (including the operations table/help desk), using a pay per click approach, up to a maximum of 450 million copies per year. The solution, which is known as the Printing Light Solution , gives Telecom Italia management of the UBI Banca workstation on an integrated ICT basis. The total value of the contract over its duration (5 years) is 18 million euros.

- **Ferrovie dello Stato (Italian State Railways):** renewal of the outsourcing contract for the data network infrastructure managed by TSF for the State Railways. The total annual fee by contract is 6 million euros. The contract provides for data transmission services and for value-added services aimed at ensuring the quality of the service; it includes the supply of network equipment in locations to be established by TSF. The contract includes about 1,300 hyperway MPLS accesses of various types (from ADSL Bit Plus to Ethernity) and the same number of ISDN connections, configured in a closed group for the backup service.

- **Cisalpina**: in July, Telecom Italia was chosen by Cisalpina, the leader in the travel and tourism sector, to upgrade the communications network which connects its points of sale and manage the integration of the points of sale of the Blu Vacanze network. This is an advanced data and voice network using MPLS technology with backup and security services and managed by outsourcing, which calls for 780 accesses, some of which are optical fiber accesses. The contract is worth 4 million euros over three years.

TOP Public Sector

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PostaCertificat@: on April 26, 2010, the PostaCertificat@ service was launched, literally certified electronic communication between the Public Administration and the citizen (CEC-PAC). The contract was finalized in January 2010. The service was awarded in the form of a concession to Poste Italiane, Postecom and Telecom Italia in a Temporary Association of Companies by means of a bidding process held at the end of 2009 by the Department of Technological Innovation of the Ministry for Public Administration and Innovation. The CEC-PAC service features the provision of certified electronic mail addresses and accessory services which the citizen may request on a voluntary basis, which are enabled exclusively for communication services within the Public Administration/citizen circuit. The service includes a package, free of charge, of the basic services necessary to ensure the creation of a direct communication channel between the citizen and the Public Administration and a collection of accessory services (chargeable) which the citizen can choose to activate or not. The concession has a duration of four years and can be extended for a further four years.

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Consortium GARR: in June 2010, Telecom Italia was awarded the contract for the supply of about 600 km of fiber for 6 years and of about ten Lambda/SDH access circuits in the context of the appendix to the bidding process opened by GARR following the two bidding processes opened at the end of 2009 for the supply of dark fiber and of circuits for the GARR-X project. The consortium GARR is the originator and operator of the national e-network of academic institutes and research centers; GARR comprises all the entities which make up the Italian academic and research community. The GARR-X project is a project for a new-generation optical fiber network dedicated to the Italian academic and research community. Optical fiber will progressively replace the entire infrastructure of the GARR network reaching the final user and allowing value-added services and very high bandwidth performance. Technological innovation and direct control of the infrastructure (fiber acquisition) will make it possible to build an extremely flexible network system whose architecture can be tailored to the requirements of users. At the conclusion of the bidding process, therefore, Telecom Italia has won the supply for six years, of almost the entirety of the fiber lots, for a total of more than 6,000 km of fiber, and the related optical equipment housing service at its own exchanges.

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Consip Mobile 4 for Acea: at the end of June 2010, ACEA signed the CONSIP MOBILE 4 convention which provides for the migration from Vodafone to Telecom Italia of about 4,200 users. The first 120 migrated by July 31, 2010 and are part of the ACEA Top Management lot; the remainder by September 30, 2010. This major contract with one of the most important customers in Italy in terms both of number of users and of public image opens the possibility for Telecom Italia to realize further interesting sales opportunities for VAS.

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Telecom Italia wins the prize for the MyDoctor@home solution: on May 28, 2010, Telecom Italia, with its MyDoctor@home solution was one of the three winners of the first edition of the Prize for innovation in IMCT organized by Confindustria for successful IT, TLC and Media projects. The prize enabled the Telecom Italia solution to be entered in the Prize of Prizes competition which was awarded on the occasion of the National Day for Innovation organized for June 8, 2010 by the Office of the President of the Republic and which concluded with the award ceremony at the Quirinale Palace by President Giorgio Napolitano. MyDoctor@Home is an integrated multichannel solution for tele-medicine and tele-monitoring of clinical parameters for the three main pathologies, cardiac, diabetic and respiratory diseases. It enables three new operational models for digital healthcare (autonomous homecare, homecare with a tutor and out-patient care) allowing patients/citizens to be monitored at a distance for their health problems in a wide variety of circumstances (in home care, in home hospitalization, for impromptu measures, for screening campaigns and in emergency situations). If applied on a broad scale, the solution allows substantial savings to be generated for the National Health Service and benefits to be achieved in the quality of life of citizens, primarily for elderly and chronic patients.

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Smart Inclusion in Genoa: on September 25, 2010 the Smart Inclusion project was inaugurated at the Haematology and Pediatric Oncology Units of the G. Gaslini Institute in Genoa. The project has been realized thanks to support from the Ministry for Public Administration and Innovation, to the technological and financial support of Telecom Italia, to scientific and project supervision by ISOF Bologna (the Institute for Organic Synthesis and Photo-reactivity of CNR, the National Council for Research) and to the contribution from the Carige Foundation of Cassa di Risparmio di Genoa. The initiative will enable the young patients to participate in social activities by connecting with school and home and will enable the doctors to optimize the management of clinical data. The project is part of a process which the Gaslini Institute started some time ago to attain the complete digitalization of all its activities, from the administrative to the medical, in order to make access to information easier and quicker while at the same time reducing costs. The contract will have a value of 720 thousand euros over its duration of 24 months.

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ISTAT, 15th Italian Population and Housing Census: in August 2010, an SPC multi-supplier contract was signed for the supply of the web-hosting, disaster recovery and related services required to conduct in Italy in 2011 the 15th Italian Population and Housing Census. The contract provides for a duration of 19 months (the service to be provided from December 2010 until June 2012) for a total amount of 3,167 million euros. ISTAT is organizing the census applying an innovative approach involving the use of municipal registers (LAC) listing families and other household members. For the first time it will be possible to distribute the questionnaires by mail rather than by the hand of census personnel and respondents will be able to choose between a number of alternative modes for their completion and return: the Web, the postal service or collection centers. The approach also provides for the active recovery of questionnaires not completed by families on the municipal registers through the use of census personnel directed from the municipality back-office. For this purpose, an innovative system for in-the-field data collection, the Census Taking Management System (SGR), has been developed. The System will give all census operatives (over 8,000) real-time Web access to information about the delivery and return of census questionnaires and about the census procedures in general.

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LEPIDA: a contract was signed at the beginning of July 2010 for the creation of this customer s Unitary network , with migration from the current network to a single network to be run by Telecom Italia for a 5-year period. The contract completes several years of activity at the Emilia-Romagna Region which has resulted in the assignment to Telecom Italia of the Radio R3 Network, the Mobile Telephony Agreement (later extended also to the Friuli-Venezia Giulia Region), the Fixed-line Voice, VOIP and Data Agreement and the IP-PABX Agreement which is already being inserted in the Agreement with the Contracting Entity. The contract calls for sales of 3.5 million euros for the construction of the new unitary network and services of 1.7 million euros for the operation of the network for a period of five years.

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INPS: in October 2010, at the conclusion of negotiations, the contract was signed for the operation of the www.inps.it portal in continuation of the DigitPa SPCoop Agreement. The contract, entered under a Temporary Association of

Companies with Elsag-Datamat ed Engineering, is for 50 million euros over two years (of which 40% is for Telecom Italia). The specific role of Telecom Italia is to provide the hosting service from our Pomezia Data Center, to design and set up the new IT architecture and to plan the graphics of the portal s web identity. The new INPS institutional portal has been online since November 9, 2010.

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Emergency Services 112 and 113: in November 2010, two contracts were signed, respectively with the National Police Force and with the corps of the Carabinieri, for the evolution of the emergency service call numbers 112 and 113. The contracts which have a total value of 7.7 million euros represent the bridging solutions as envisaged in the European Community project for the creation of a single emergency 112 call number and alignment with the established standards with particular reference to the capability to provide the emergency service bodies with real-time identification and localization of the caller. Telecom Italia s activities, as defined in the contract, are directed towards the construction of the VPN for the emergency bodies to ensure the security and the availability of resources dedicated exclusively to the service and the exchange of information between the operations rooms of the police forces in order to strengthen the synergies needed to handle the emergencies and to design a cartographic web application displayable by the inter-forces IT system, to enable staff working in the operations rooms of the Carabinieri and the National Police Force to obtain localization data.

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Smart Inclusion for Regina Margherita Hospital in Turin: in December 2010, the Smart Inclusion project was inaugurated at Regina Margherita Hospital in Turin. This is part of the national project promoted by the Ministry for Innovation, CNR and Telecom Italia, which today is operating in five of Italy s major hospitals: Sant Orsola Hospital in Bologna, Bambin Gesù Pediatric Hospital in Rome, Policlinico in Padua, Meyer Hospital in Florence and Gaslini Hospital in Genoa. For Regina Margherita Hospital, the project includes in this phase the complete coverage of 21 beds in the hospitalization and transplant wards of the Hospital s Pediatric Oncohaematology Unit and of 5 classes at Vittorino da Feltre and Peyron-Fermi schools in Turin.

BUSINESS

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In January 2010, the ***TIM Valore*** **Offering** was launched; this is a rechargeable plan dedicated to customers with a VAT account. *TIM Valore* combines the advantages of a rechargeable card with the advantages of a subscription service: it provides a basket of credit for each line of the contract, which can be personalized and recharged according to the consumption characteristics of each user; it does not carry a service activation charge; it allows post payment in the telephone bill of the credit recharges and provides a two-monthly account of the recharges made. In the first half of 2010, diversified rate plans have been introduced to satisfy the requirements of the various types of business customers: *TIM Valore* 12 is the plan based on consumption; *TIM Valore Flex* gives a high degree of flexibility thanks to a rationale of minutes of traffic included; *TIM Valore* Unlimited was devised for customers wishing to combine the simplicity of a rechargeable service with the freedom of an All Inclusive formula (voice, SMS, internet and customer support).

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In March 2010, the **Converging Offering** ***TraNoi*** (Business market) was launched: it is an integrated Fixed and Mobile offering which for a monthly subscription of 5 euros allows an unlimited number of calls from mobile to all the numbers in the Mobile contract and to all Telecom Italia Business fixed-line numbers of the same customer at no cost (no charge per minute and no call set-up charge). The main advantages of the *TraNoi* option are convenience, transparency (no call-set-up charge) and simplicity (it can be activated on all plans available to the customer).

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On June 22, 2010, Telecom Italia launched the **PEC-Confartigianato** initiative, aimed at the 700 thousand businesses associated with Confartigianato which enables them to activate and use free of charge until December 31, 2011 Telecom Italia s *Impresa Semplice* Certific@ , the innovative certified e-mail service which guarantees the legal validity of communications by e-mail. The agreement gives a further impulse to the digitalization of businesses, making possible a major simplification of their operating processes. The Certific@ service will be available immediately to all associates by means of a simple activation procedure and will facilitate relations between businesses and institutions. The agreement also provides for associates to equip themselves on very favorable terms with the IT equipment and services included in the *PC Tuttocompreso* offering of *Impresa Semplice*.

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In July 2010, Telecom Italia s ***Soluzioni Associative*** product for professionals in the hospitality business was enriched by a new offering. In fact, Federalberghi has chosen Telecom Italia s *Impresa Semplice* as partner to offer, on particularly attractive terms, to all operators in the hotel business both innovative fixed and mobile telephony solutions and specific vertical ICT applications for the development of their activities.

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The ***PC Tutto compreso*** offering has been completed and full-scale marketing was launched in July 2010. It is a solution which offers a latest generation personal computer from a primary manufacture with service and support included. The services are designed to support a business s operations and continuity: Microsoft Office Small Business 2007 the personal productivity software, McAfee Internet Security 2010 ant-virus software, Certific@ for the certified e-mail service of *Impresa Semplice*, *Archivi@ 50GB*, the data storage system to conserve important documents in a Telecom Italia secure environment free for 3 years, the *Business Posta* professional e-mail service and the e-fax service free for 3 years, and finally the *Assistenza Premium* service for the resolution of all software problems.

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Ospit@ Virtuale - Cloud Computing for SME s: in September 2010, Telecom Italia launched the Italian cloud computing solution offering a service of virtual hardware and software to SME s. This makes it possible for the SME to utilize infrastructure and software located in Telecom Italia s data centers, operated remotely through the internet, available when needed with performance which can be scaled to the needs of the business. In this way, the SME can avoid costs and optimize IT expenditure by paying for the service only on the basis of usage. Virtual Ospit@ includes an infrastructure and a series of virtual IT platforms based on Microsoft and Linux technologies, and a vast range of software applications which can be virtualized by Telecom Italia s partners for the development of complex IT solutions (CRM, ERP etc). Remote storage solutions are available as well as virtual desktops and collaboration solutions.

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Internet Premium: the offering, launched in the fourth quarter 2010, comprises 7 mega internet access including the main advanced Web services (e-mail, anti-virus, fax mail and Web space) and the Next Business Day premium technical support service. The technical support service provides for the resolution of internet malfunctions by the end of the day following notification. With Internet Premium the customer also has available a wide choice of additional optional services to meet all requirements, which can be configured and used from the Impresa Semplice Services portal, including Internet in Mobilità Daily Business , which includes a 7.2 mega Hi-Speed pen drive, a M2M SIM card and two days per month of free mobile traffic. Customers who bought the service prior to December 31, 2010 obtained a 50% discount on the monthly fixed charge for six months.

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Completion of the Elite Plan: is a new family of fixed-line voice offerings aimed at medium and large businesses which develop a high volume of traffic and have at least 12 access line equivalents. Featuring aggressive pricing on all directions of traffic with no call set-up charges or fixed charges, it takes the form of six rate plans to best respond to the variety of customer requirements. It is compatible with the other *Impresa Semplice* rate options in order to customize the business rate features and increase the advantages of the plan. These include: the *TraNoi* option for calls at 0 cents/euro to all the fixed and TIM mobile numbers of the business and the *Mondo Open Business* option with very advantageous pricing on international calls. In the first quarter, the first Elite plan for businesses with 12 access line equivalents was released (plan A rate list) and in October, the portfolio was completed with the commercial launch of plan B (15 lines).

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Smartphone *TuttoCompreso*: the new offering for the mobile market was launched combining a single monthly charge for voice, mobile internet, a latest generation smartphone and kasko insurance on the handset. The offering includes automatic renewal of the handset every 24 months, replacing it with the best available product. The offering is modular with three packages: basic, XL and TOP which differ in terms of consumption (from 500 Mb per month of internet traffic to 2 Gb per month). For Blackberry handsets, the internet and mail traffic volumes on the Blackberry.net APN are unlimited. The offering is addressed to all customer segments and aims to respond to the need to increase customer loyalty by resolving the problem of the technological obsolescence of the equipment.

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Promotional and Loyalty Initiatives: in the last quarter, a promotional initiative known as **Promo Loyalty Bonus** was launched for all new and MNP (mobile number portability) customers. The promotion, valid for customer acquisitions up to December 31, 2010, provides for a bonus of up to the value of 240 euros according to the service profile activated, payable in advance in 4 half-yearly tranches aimed at acquiring customers with strong levels of loyalty and low churn rates.

CONSUMER

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The portfolio of consumer mobile plans has been renewed with the launch of new plans, the most important of which are: **TIM TUTTO COMPRESO RICARICABI*LE*** to attract competitors customers who are looking for benefits on all numbers because they do not yet have a consolidated TIM community and **TIM x Tutti Italy** to complete the TIMx range aimed at customers who call fixed lines. In order to develop the community of TIM customers, the push was intensified on the penetration of TIMx and prepaid *Tutto Compreso* options using promotional formulas which discount the activation charge and/or the weekly charge.

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In the fourth quarter 2010, promotional activity continued on the rate options aimed at attracting new customers. The push continued on **TIM TUTTO COMPRESO RICARICABILE** (1 euro per week instead of 4 euro per week for the rest of 2010) with the possibility for customers who activated this plan to have a free smartphone (subject to signing a 24-month contract). The offer for new **TIM x 2** customers was also renewed in order to favor the creation of the TIM community (1 euro per week instead of 2 euro per week for the rest of 2010).

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For messaging, the plan **TIM TUTTO COMPRESO RICARICABILE SMS** (1 euro per week instead of 2 euros per week for the rest of 2010) has been extended for new customers and the new **TIMxTutti Messaggi** (0.50 euro per week instead of 1 euro per week until the end of 2011) has been proposed.

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The **Raddoppio della Ricarica** promotion to increase the push on customer acquisition also continues; this plan gives a double the recharge credit for 12 months only on MNP acquisitions (limit of 50 euros per month).

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The entire *Tutto Compreso* range for subscribers and prepaid customers has been renewed with new, even more competitive price reductions adding a wide choice of Smartphones.

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Strengthening of plans offered to high-value customers: a discount of 50% on *Tutto Compreso* voice rates for customers who switch to TIM maintaining their own number. In addition, acceleration in the use of terminals as a lever for customer acquisition and for building loyalty in the customer base: discount of 50% on high end smartphones and zero cost promotions on low end smartphones for all customers who take up the *Tutto Compreso* offering.

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As in the past at Christmas, in December 2010, TIM launched the **Carta Auguri** card which uses the same mechanism as the Carta Vacanze card and provides for the reimbursement of all national calls through immediate bonuses without time limit for utilization, of 5 euros (up to a maximum of 3,000 euros over the 30 day validity of the card). The activation charge of only 5 euros has made this a winning offer compared to the seasonal promotions of competitors, much appreciated by TIM customers. For customers who send a lot of SMS, **Carta Auguri** which provides for more than 1,000 SMS to be sent to anyone (to be consumed within 30 days of activation) makes it possible to send greetings to everyone in the greatest freedom.

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The **TIMTiRicarica** option has also been added for prepaid customers; this credits a recharge to the phone on all calls received from mobile telephones of other mobile operators and from fixed lines.

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To close a competitive gap and to increase the satisfaction of new TIM customers, the new SMS Trasparenza service was launched; this service provides the prepaid customer with information at the end of each call about the cost of the call and the amount of the residual credit.

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The portfolio for big screen mobile broadband (from a tablet PC) is simple and based on 2 levels of bundled traffic: 40 hours per month and 100 hours per month which are applied across all forms of plans. Prepaid plans for traffic only **INTERNET 40** (9 euros per month) and **INTERNET 100** (19 euros per month) with promotions (50% discount for the first 6 months) in the case of a purchase combined with an internet key. These plans have been added alongside the integrated plans, unique on the market, **INTERNET PACK 40** (99 euro) and **100 hours** (159 euro) which give customers 12 months of surfing plus an internet key. The Christmas offer strategy was based on these strong points. In fact, a **Christmas edition** of the internet packs (40 hours and 100 hours) was launched with a 14.4 mega key at the same price as the 7.2 key. From September to November 14, the **Con TIM vinci DUCATI** competition was active on these plans with 3 Ducati motorbikes as prizes open to customers who activated an INTERNET PACK 40 or an INTERNET PACK 100. Installment payment plans continue to be offered with **PIANO INTERNET 40** (9 euros per month for 24 months) and **100 hours** (19 euros per month for 24 months) with internet key included. On all the prepaid plans with internet key (INTERNET PACK, INTERNET 100 with internet key), in certain periods (April - June, with some residue in September and November), the government incentive of 50 euros has been applied.

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In addition, the mobile broadband portfolio has been enriched by the volume-based offerings for TABLETS. Here too 2 levels of traffic are offered: 1GB per month (INTERNET 1GB at 9 euro per month) and 5GB (INTERNET 5GB at 19 euros per month) available on products included in the TIM price list and on the Apple iPad. For products included in the TIM price list, a prepaid promotion was launched for combined purchases of product and traffic volume (50% discount for the first 6 months) and an installment plan offering - the INTERNET TABLET PLAN with monthly payments covering both product and traffic volume.

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The small screen mobile broadband portfolio (for navigation directly from the cell phone), the driver of ARPU growth, has been rationalized with the launch of a unique reference plan for **TIM x SMARTPHONE** prepaids (2 euros per week with 250 MB for internet surfing, mail, Instant Messaging etc). For postpaid customers, with the same logic, the offering is on a monthly basis (8 euros per month with 1GB for internet surfing, mail, instant messaging etc). For Christmas, a promotion was launched which includes six months of TIM x Smartphone with every smartphone sold prior to December 31.

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From June, the SMARTPHONE PACK was launched, a plan integrating smart phone and traffic (6 months) at 179 euros all inclusive.

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In December 2010 TIM launched the **BIBLET,** the electronic book connected to the mobile network, with an Italian language library available at www.bibletstore.it. The product is available in two versions: the prepaid **BIBLET-KIT** at 259 euros which includes the e-reader product BIBLET-TIM by Sagem and a prepaid SIM card with 5 euros of traffic; the installment plan offering **PIANO BIBLET** at 19 euros per month for 24 months which includes the e-reader product BIBLET-TIM by Sagem and 10 euros per month for the purchase of books from www.bibletstore.it. The strengths of the BIBLET-TIM product are: the availability of an ample library in Italian on www.bibletstore.it and the ability to purchase books using the residual credit of the TIM customer. The library available on www.bibletstore.it is supplied through agreements with the main Italian publishing houses: Mondadori, RCS, Feltrinelli, Baldini & Castoldi, etc. the launch was accompanied by a free promotion in the form of a download of Ken Follett s latest book.

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In September, 2010 TIM launched **TIMstore**, the TIM APP store giving access to the world of cell-phone applications providing a broad range of content and services for more than 1,000 handset models covering the main operating systems. TIMstore in fact is of interest not just to owners of latest generation smartphones but also to users of 2G terminals, thereby enabling a large public to enter the world of applications.

There are currently about 1000 applications available on www.timstore.tim.it, divided into categories: Social Network, Mapping, Games, Information, Utilities, Sport and Health. The applications can be purchased directly using the mobile phone credit without a credit card.

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In consumer fixed-line services, with the launch of **INTERNET SENZA LIMITI** in the first quarter of 2010 the revision of the portfolio of plans was completed (all no limit , internet no limit and voice no limit) with plans offere flat charge, based on a traditional format. Further, in the second and third quarters of 2010, the internet plans have been enriched with the addition of the installment sale of a PC netbook to facilitate the digital education of Italian families, in line, too, with government initiatives (contributions for broadband) and, in particular, with the September 2010 back to school season. The portfolio of plans was completed with the launch of Telecom Zero which at no additional monthly cost offers calls to national fixed-line telephones at 0 cents per minute with a call set-up charge of 16 cents per call and the Internet no limit and the all no limit plans was enriched with the inclusion of an Antivir for PCs . VAS traffic generators such as *Chi é* (visualization of the caller) were revitalized also with the launch of a promo 2 months free. Further, thanks to the agreement between the Italian State Railways and Telecom Italia, **the Wi-Fi internet service has been introduced on board Frecciarossa trains.**

Principal changes in the regulatory framework

Retail fixed-line markets

Local, national and fixed-to-mobile retail traffic

With Decision 284/10/CONS published in the Gazzetta Ufficiale on July 12, 2010, AGCom concluded the public consultation on the analysis of markets for local, national and fixed-to-mobile telephony services and, judging the retail traffic markets to be sufficiently competitive, provided for the revocation of the regulatory obligations imposed on Telecom Italia in the last cycle of market analysis. In particular, the obligations were removed for *ex ante* price testing, advance notification of plans, the disallowance of bundled services and the restrictions on the fixing of fixed-to-mobile prices. The Regulator has however established a transition period of six months from the publication of the definitive regulations during which the obligations will remain:

a)

for the advance notification of offerings for the purposes of price testing, relative only to rate plans and excluding offerings developed under procedures for the selection of suppliers subject to public review;

b)

against unjustified discrimination of final customers;

c)

against unjustified bundling of services offered.

AGCom also provided that Telecom Italia can be subjected to *ex post* checks of plans.

Price testing

On October 28, 2010, AGCom Decision 499/10/CONS which established the new regulations for the verification of Telecom Italia s retail offerings through price testing was published in the Gazzetta Ufficiale.

The main elements contained in the Decision are set out below:

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introduction of a single test of replicability valid for all offering contexts (both traditional and innovative) and reference to the most efficient network technology available to OLOs for the purposes of replicating Telecom Italia s offering (ULL, WLR, bitstream, etc);

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tests of bundled offerings to be made considering all the savings obtainable relative to the stand-alone offerings with the possibility of making reference to configurations of long range incremental cost;

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ad hoc tests of offerings under bid tenders by reference to the costs of the most efficient production configuration that the competitors could utilize in the specific context of the bid and considering marginal costs or costs which are avoidable in the short run.

Wholesale Line Rental services

Concerning wholesale line rental (WLR) offered solely in areas where unbundled access services are absent, with Decision 578/10/CONS dated November 11, 2010, AGCom has set the new price for the period May 1, 2010 to December 31, 2012 calculated using the Network Cap mechanism defined on the basis of a BU-LRIC (Bottom-Up Long Range Incremental Cost) model instead of the previous retail-minus regime. The prices have been set at 12.14 euros per month for the period May 1, 2010 to December 31, 2010, 12.51 euros per month for 2011 and 12.89 euros per month for 2012 applicable to all types of customer. AGCom has also set prices for the other services which are accessory to WLR effective for the period January 1, 2010 to April 30, 2010 placing them at the same level as the values in the 2009 WLR Reference Offer.

Wholesale fixed markets

Wholesale access services

With Decision 578/10/CONS dated November 11, 2010, AGCom set the new rates for the provision of wholesale access to Telecom Italia s fixed network (unbundling, bitstream and WLR) and the calculation of the WACC, both applicable for the period May 1, 2010 to December 31, 2012. The values set were developed based on the new BU-LRIC model and relate to both unbundled copper network access and broadband access (bitstream) services.

In particular, for the unbundling charge, AGCom has set the following values: 8.70 euros per month from May 1, 2010, 9.02 euros per month from January 1, 2011 and 9.28 euros per month from January 1, 2012.

In particular, the 2011 and 2012 price increases in the unbundling charge are conditional on a verification - by AGCom - of improvement in the following network quality indicators: a) the percentage of refusals attributable to problems in the access network (the so-called network KOs); b) the stage of completion of the copper network renewals program (preventive maintenance) and, solely for 2012, the level of saturation of the switching centers, c) the number of reported voice and data services malfunctions for which the intervention of a technician has been necessary. With regards to the WACC to be applied to Telecom Italia wholesale access services, a rate of 9.36% has been established.

AGCom has also set the prices for the period January 1, 2010 to April 30, 2010 for the services which are accessory to the unbundled access services and for the 2010 co-location offering and for broadband access services, confirming the respective pricing in force for the year 2009.

Wholesale origination, termination and call transit

At the end of the cycle of market analysis, with Decision 179/10/CONS dated April 28, 2010, AGCom issued and published the final regulations for wholesale call origination and termination services and, with Decision 180/10/CONS also dated April 28, 2010 the final regulations for wholesale transit services. Both the resolutions innovate and discipline the regulations and economic conditions affecting these services.

With regard to the origination and termination markets, AGCom has ordered the introduction of a BU-LRIC model for the determination of termination pricing for the year 2012 and has fixed the new rates for the years 2010 and 2011 on the basis of cost accounting data. The pricing for wholesale origination services has been set at the same level as that for wholesale termination services. AGCom has also confirmed its intention to impose rates for symmetric termination, however only at the SGT level. In particular, also in view of the indications received from the European Union, with Decision 602/10/CONS dated November 23, 2010, AGCom has launched a public consultation concerning the setting of 2011 rates for wholesale origination and termination.

For the call transit market, the Authority has introduced the deregulation of the national component of the market under review whereas for the local component AGCom has ordered the introduction of a BU-LRIC model for the determination of prices for 2012 and has set the new rates for 2010 and 2011 calculated, also in this case, on the basis of regulatory cost accounting.

On July 22, 2010, with Decision 55/10/CIR, AGCom launched the public consultation concerning Telecom Italia s Reference Offering for origination, termination and call transit for the year 2010 which was subsequently approved in Decision 119/10/CIR.

Next generation networks

On September 23, 2010 with Decision 498/10/CONS, AGCom introduced the procedure concerning the regulation of access to new generation networks. The procedure lasts 120 days from the date of publication of the Decision in the Gazzetta Ufficiale (October 25, 2010).

The decision to launch the procedure arises from the dispositions in paragraph 7 of article 73 of Decision 731/09/CONS which states that *after the approval of the European Commission s Recommendation on NGA networks, (omissis), the Authority will review the terms for NG access services included in this regulation* . With Decision 1/11/CONS dated January 19, 2011, AGCom has therefore launched the public consultation concerning its position on the regulation of next generation network access services.

Wholesale mobile market

Termination on the mobile market

The public consultation launched on October 5, 2010 with Decision 509/10/CONS concerning the Long Run Incremental Cost model for the mobile network (prepared in November 2009 by Europe Economics on behalf of AGCom) has been concluded. This cost model will be used in the new procedure introduced by Decision 670/10/CONS dated December 28, 2010 with which AGCom has initiated the third cycle of market analysis for the review and updating of the glide path values for the maximum prices for termination.

Mobile messaging and data services

On August 19, 2010, Decision 326/10/CONS was issued concerning measures for the protection of users of mobile and personal communications services . The Decision, the provisions of which have been implemented by December 31, 2010, provides for free switching of rate profiles to pass to a plan with an SMS maximum price in line with the EU price, rates by the second, introduction of threshold warnings on reaching set cost thresholds and introduction of limits to the costs incurred by a customer beyond which surfing can continue only with the explicit consent of the customer. On December 9, 2010 AGCom rejected the request submitted by Telecom Italia for the amendment/interpretation of Decision 326/10/CONS which related in particular to the implementation timetable established by the Decision (January 1, 2011 and anyhow by the end of July 2011). On December 17, 2010 an extraordinary application was made to the Head of State requesting the immediate suspension and annulment, of the Decision itself.

AGCom fee

In December 2009 AGCom published Decision 722/09/CONS relating to the annual fee owed to the Italian Communications Authority for the year 2010 (1.5 of 2008 communications sector revenues, to be paid by April 30, 2010). Telecom Italia has paid an amount of 20,362,264.08 euros. In January 2011, AGCom commenced inspection activity aimed at verifying the compliance of telecommunications companies with their AGCom fee obligations for the years 2006, 2007, 2008, 2009 and 2010. AGCom s inspection activity covers all companies in the sector and the findings of the inspections are expected to be notified by spring 2011.

International Roaming

The recently issued legislation (Regulation EC 717/2007 and Review of 2009 Regulation EC 544/09) established cap values effective from August 30, 2009, July 1, 2010 and July 1, 2011 for Wholesale telephony pricing, for retail outgoing call pricing, for retail incoming call termination and for SMS and Data.

Prices from July 1, 2010 for wholesale telephony have been set at 0.22 cents/euro per minute (exclusive of VAT), for retail outgoing calls at 0.39 cents/euro per minute (exclusive of VAT) and for retail incoming calls at 0.15 cents/euro per minute (exclusive of VAT).

The new text of the Regulation also provides for a maximum retail value for SMS, the so-called Euro SMS tariff of 0.11 euros per SMS (exclusive of VAT) from July 1, 2009. The new text also provides for a price at the wholesale level, from the same date of 0.04 euros (exclusive of VAT) per SMS.

For data traffic, from July 1, 2010, the cut-off limit mechanism will be applied to all customers except those who have opted for a specific threshold or have declined the cut-off limit service. For business customers, Telecom Italia will apply a default threshold of 200 euros of cost (unless otherwise fixed by the customer), established on the basis of the average level of costs incurred by customers in this segment. At the wholesale level, the new Regulation provides for the introduction from July 1, 2010 of a price based on kilobytes of 0.80 euros per megabyte.

Municipality of Florence bid

In August 2010, AGCom notified Telecom Italia of the commencement of sanction procedure 1/10/DIR relative to Telecom Italia s offer presented under the bid for the Municipality of Florence. In December 2010, the council of AGCom, after examining the defense material submitted by Telecom Italia, decided to dismiss the procedure (Decision 671/10/CONS dated December 17, 2010).

Frequencies

On December 7 2010, the 2011 Stability Law was approved providing that AGCom and the Department of Communications commence the procedures for the assignation of rights of use over radio frequencies to be dedicated to broadband mobile communication services using the frequency range 790-862 MHz and other resources which may be available, in conformity with the provisions of the Code of Electronic Communications. The assignation procedures must be completed within a period which ensures that the proceeds of the assignation are paid into the State revenues by September 30, 2011.

Public telephones

During the year 2010 7,500 public payphones have been removed in accordance with regulatory provisions and with Telecom Italia s expectations concerning the reduction of the costs of public telephone service.

Competition

The market

The Italian telecommunications market has been characterized for some time by strong competitive pressure both at the retail and at the wholesale levels which over the years has led to a physiological impoverishment of the traditional components of service, in particular of the voice service. Key elements in the evolution of the market have been the increased penetration of broadband, first fixed and now also mobile, and above all the progressive increase in bandwidth speed not accompanied, however, by a corresponding increase in average prices.

For some years, too, the competitive scenario for telecommunications, in Italy and at the global level, has been evolving under the effect of the convergence of the telecommunications, the information technology, the media and the consumer electronics markets. This phenomenon causes lateral competition which extends the area of competition to include the converging markets and their reference operators, creating an opportunity for growth but also a threat.

In particular, for the telecommunications operators (the Telcos), in addition to the core competition from the other historical operators in the sector, there is an invasion of the field by the Over the Top companies and the device producers, which take advantage of their full understanding of consumer trends, consumer electronics evolution and software environments and which, operating wholly in the digital world, base their behavior on a competitive rationale which is totally different to that of the telecom players.

Over time, therefore, the traditional players business models change so as to meet the threat from the new entrants and to utilize the new opportunities:

•

in Media, the broadcasters, vertically integrated players, continue to dominate the scenario but, with the Web having a growing importance as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies, the Telcos and the Over the Tops;

•

in Information Technology (where Italy continues to have a level of investment relative to its GDP which is significantly lower than that of the United States and of other European countries), the decline in revenues is driving the various players towards the cloud computing growth oasis as a way of protecting market shares in their respective core businesses. A strengthening of the Telco operators is expected however, also through partnerships and acquisitions;

•

in the Consumer Electronics market, the cell phones with greater functionality (such as Apple s iPhone) attenuate the relationship between the customer and the telecommunications operator, and other devices, such as the games console, the set-top box and more recently the connected TV itself, compete with the Media companies, with the Telcos and with the Over The Tops for the role of net enabler of the living room screen;

•

the Over The Top operators, as indicated above, represent the most significant threat for the Telcos 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, often with the latter s consent.

Conversely, with regard to the positioning of the telecommunications operators in the converging markets, it should be noted that there are, at varying levels of development, initiatives to enter infrastructure services in the IT market (Cloud Computing, Machine to Machine, Mobile payment, Security etc.), a role as premium content distributor through IPTV and as facilitator of the consumption of online content on the living room screen through OTTV and a significant presence in online advertising and in the development of smartphone web 2.0 applications.

Competition in Fixed-Line 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 thanks 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 the infrastructures (primarily (LLU) Local Loop Unbundling). 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.

In 2010, 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 in progress a 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, of PCs and of other connected devices, as well as by the quality of the service.

The competitive scenario in the Italian market for fixed telecommunications is characterized by Telecom Italia and 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, with an all inclusive offering (voice and data), on cost conscious retail mass market customers is positioned with less concentration on the top segment and on an ICT offering;

.

Fastweb, an operator which positions itself as technological leader and which offers a high value-added all-inclusive broadband service is directed mainly at retail and corporate customers. Fastweb remains focused on the large urban centers and on high value customers, although in 2010 it has shown a gradual abandonment of premium pricing with recourse to very aggressive promotional formulae. The company is also present in the mobile market as an MVO (mobile virtual operator) with H3G;

.

Tiscali, an operator focused on fixed-line with a broadband offering *semplice e conveniente* , is directed primarily at the consumer and SOHO segments and also has a mobile telephony offering Tiscali Mobile as an MVNO with TIM;

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Vodafone, positioned as a global player mainly concentrating on mobile with a fixed offering focused on the 2play offering and on fixed-mobile cross-selling is focused on the 2Play package and on fixed-mobile cross-selling activities; less focused on top and ICT offerings.

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TeleTu (formerly Tele2, purchased by Vodafone) is focused on low-spending customers with aggressive pricing, entry-level voice and broadband plans and extensive promotional use of not charging a fixed fee ;

.

BT Italia, focused on business customers and ICT packages, also offers mobile telephony services as an MVNO (mobile virtual network operator) with Vodafone. In 2010, it has shown a progressive weakening with a slow-down in investment and a reduced level of innovation.

At the end of 2010, fixed accesses in Italy numbered approximately 22.5 million, substantially in line with 2009. The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share of retail voice traffic volumes.

Concerning the broadband market, at December 31, 2010, fixed-line broadband customers in Italy reached a total of approximately 13.1 million with an approximately 58.3% penetration of fixed accesses.

In 2010, 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. 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, IP Centrex, etc.).

There was further decline in revenues from the Data transmission services segment which is the main component of the Top customers market. This market is 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 and has felt the effects of competition, experiencing a fall in average prices in the presence of the substantially unchanged market shares of operators.

Competition in Mobile Telecommunications

The mobile market, while increasingly saturated and mature in its traditional component of voice services nevertheless continues to experience growth in the number of mobile lines, driven by the growth in multiSIM/multidevice customers and in non-human lines (at December 31, 2010, mobile lines in Italy numbered around 94 million with growth of 4% over 2009 and with a penetration rate of approximately 155% of the population).

Alongside the progressive contraction of the components of the traditional service there is however a significant growth in data and value-added services.

This is the situation of mobile broadband which in the last few years has been, and will increasingly be in the future, the main strategic and commercial opportunity for the mobile telecommunications industry, able, probably, to offset the erosion in some of the traditional components of revenues such as voice and messaging.

In 2010, in Italy, there has been significant growth in mobile broadband customers, both large and small screen and at the end of the year they numbered in total more than 15 million, with a penetration rate of about 16% of mobile lines.

Alongside the innovative services which are already established and 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 etc..

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

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Vodafone, joint market-leader with Telecom Italia, positioned as a global player with a strategy as an innovative operator, very attentive to the customer, with a strong brand and customer loyalty based on the community concept;

.

Wind, focused on the cost conscious segment with a portfolio of simple plans and also on customer loyalty based on the community concept;

.

H3G, a mobile-only operator focused on high value customers, on advanced VAS services and terminals with competitive pricing (for example, microbrowsing, mobile broadband and mobile content), present in the microbusiness segment and substantially absent from the TOP segment.

Alongside these operators there are a number of virtual operators (for example Poste Mobile) which, however, to date constitute only a small part of the market.

Telecom Italia s market share of total mobile lines is around 33%, down compared to December 31, 2009 (34.2%).

Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS, GSM and TDMA technologies. Moreover, following the acquisition of Intelig Telecomunicações at the end of 2009, the Tim Brasil group completes its service portfolio with the fiber-optic data transmission offering using full IP technology such as DWDM and MPLS.

The structure of the Business Unit

The Tim Brasil group is organized as follows:

Main operating and financial data

Key results in 2010 compared to 2009 are presented in the following table:

	(millions of euros)		(millions of Brazilian reais)		
	2010	**2009**	**2010**	**2009**	**Change** (a)

(b)

(c)

(d)

Amount

(c-d)

%

(c-d)/d

% organic

Revenues

6,199

4,753

14,457

13,161

1,296

9.8

5.1

EBITDA

1,801

1,255

4,201

3,476

725

20.9

16.6

E B I T D A margin

29.1

26.4

29.1

26.4

2.7pp

2.9pp

EBIT

685

209

1.597

580

1,017

◦

◦

EBIT margin

11.0

4.4

11.0

4.4

6.6pp

6.5pp

Capital expenditures

1.216

964

2.836

2,671

165

◦

Headcount at year-end (number)

10,114

9,783

331

3.4

Revenues

Revenues total 14,457 million reais, increasing 1,296 million reais compared to 2009 (+9.8%). Revenues in 2009, restated to take into account the change in the scope of consolidation after the acquisition of Intelig Telecomunicações Ltda, total 13,750 million reais. The organic growth of revenues is +5.1%.

Service revenues in 2010 are 13,571 million reais, an increase compared to 12,234 million reais in the prior year (+10.9%); product revenues fell from 927 million reais in 2009 to 886 million reais in 2010 (-4.5%), due to the effect of the growth of rate plans offered separately from the sale of handsets (SIM only sales).

The monthly ARPU, or average revenue per user, is 23.7 reais at December 2010 compared to 26.6 reais at December 2009.

Total lines at December 31, 2010 are 51.0 million, growing 24.1% over December 31, 2009, corresponding to a 25.1% market share of lines.

EBITDA

EBITDA is 4,201 million reais, increasing 725 million reais compared to 2009 (+20.9%). The EBITDA margin is 29.1%, up 2.7 percentage points over 2009. This result was achieved, on the one hand, by the increase in revenue margins, owing to the expansion of on net traffic and the growth of revenues from advanced services and, on the other, by sales policies which reduced the level of handset subsidies and overall efficiency gains in costs generally unrelated to business development. The organic change in EBITDA compared to 2009 is +599 million reais (+16.6%); the organic EBITDA margin is 29.1% (26.2% in 2009).

(millions of Brazilian reais)	**2010**	**2009**	**Change**
HISTORICAL EBITDA	**4,201**	**3,476**	

	725		
Change in the scope of consolidation	-	31	(31)
Costs for services associated with the settlement of a dispute	-	64	(64)
Other expenses	-	31	(31)
COMPARABLE EBITDA	**4,201**	**3,602**	**599**

With regard to changes in costs, the following is noted:

(millions of euros)

(millions of Brazilian reais)

	2010	2009	2010	2009	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	3,519	2,808	8,208	7,777	431

Employee benefits expenses	283
	207
	659
	574
	85
Other operating expenses	588
	467
	1,371
	1,293
	78

.

acquisition of goods and services totals 8,208 million reais (7,777 million reais in 2009). The increase of 5.5% compared to the prior year (+431 million reais) is the result of higher rent and lease costs for 225 million reais (1,084 million reais in 2010), higher outside service costs for 98 million reais, higher purchases of raw materials, auxiliaries, consumables and merchandise for 62 million reais and a higher portion of revenues to be paid to other TLC operators for 45 million reais. Excluding the change in the scope of consolidation (692 million reais), there would have been a reduction in costs of 261 million reais;

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employee benefits expenses amount to 659 million reais, increasing 85 million reais compared to 2009 (+14.9%). Excluding the change in the scope of consolidation, the increase would have been 18 million reais due to the variation in the composition and the per unit cost of the workforce. The average headcount fell from 8,900 in 2009 to 8,727 in 2010. The percentage of employee benefits expenses to revenues is 4.6%, increasing 0.2 percentage points compared to 2009;

.

other operating expenses amount to 1,371 million reais, increasing 6.1% (1,293 million reais in 2009). Such expenses consist of the following:

(millions of Brazilian reais)	2010	2009	Change
Writedowns and expenses in connection with credit management	311	422	(111)
Provision charges	41	70	(29)

Telecommunications operating fees and charges	961	735	226
Indirect duties and taxes	26	33	(7)
Sundry expenses	32	33	(1)
Total	**1,371**	**1,293**	**78**

EBIT

EBIT amounts to 1,597 million reais, increasing 1,017 million reais compared to 2009. This increase is due to a higher contribution by EBITDA compared to 2009 and lower depreciation and amortization charges of 285 million reais (2,594 million reais in 2010, compared to 2,879 million reais in 2009). In particular, the reduction in amortization charges is attributable to the revision of the useful life of software (-364 million reais) while the depreciation charge increased for plant and machinery (+117 million reais).

The organic change in EBIT is a positive of 985 million reais compared to 2009; the organic EBIT margin is 11.0% (4.5% in 2009). Details are as follows:

(millions of Brazilian reais)	2010	2009	Change
HISTORICAL EBIT	**1,597**	**580**	**1,017**
Change in the scope of consolidation	-	(63)	63
Non-organic expenses already described under EBITDA	-	**95**	(95)
COMPARABLE EBIT			

1,597
612
985

Capital expenditures

Capital expenditures stand at 2,836 million reais, increasing 165 million reais compared to 2009, mainly on account of higher capital expenditures for the network (2G and 3G technologies) and IT platforms. The 2G (voice) capital expenditure program is directed towards improving the capacity, the coverage and the quality of the network, supporting the increase in traffic due to the expansion of on net plans. Capital expenditures for 3G coverage are also continuing in accordance with the regulatory objectives and market developments.

Headcount

Headcount is 10,114 at December 31, 2010, an increase of 331 compared to December 31, 2009 (9,783).

Commercial developments

In the fourth quarter 2010, Tim Brasil intensified promotional activity on voice plans and further expanded data services.

For voice, in the Consumer segment, TIM continued with the promotion of the Infinity and Liberty plans, noted for their SIM-only sales (acquisition of customer without handset subsidy), fostering on-net local and long-distance calls thanks to the existence of a community of TIM customers which at the end of 2010 totaled 51 million. Voice customer gross acquisitions in the fourth quarter alone amounted to 9.1 million, an increase of 54% over the corresponding period of 2009.

In postpaid, TIM has developed a new promotion for Infinity customers known as *Infinity Mais* which adds the mobile-to-fixed calls to the unlimited duration calls: the promotion offers local calls to any fixed number at a cost of 0.50 reais per call, in addition to unlimited on-net traffic (local and long-distance) at a cost of 0.25 reais per call.

In the Business segment, TIM is continuing with the offering of the three plans launched in 2010: *TIM Impresa Mundi* is an innovative product which offers a package of minutes including local and long-distance calls and roaming at no extra cost, *Liberty Empresa* is a promotion which gives the right to unlimited on-net use (local, long-distance and roaming) for calls to fixed and mobile TIM numbers at fixed rates and *TIM Impresa Nacional* offers a fixed rate for all the branches of a single business. In the Company segment, TIM has intensified marketing activity, also with plans for fixed-line/data services from Intelig.

In data services, TIM has stepped up the plans of the TIM Web , Liberty Web and Infinity Web promotions in order to stimulate market penetration. TIM Web is an internet access plan (using a mobile modem) which introduces time-based pricing in the place of the traditional volume-based pricing (megabytes) which is more difficult for the customer to control. For promotional purposes, the offering gives free access between midnight and 8.00 am. For post-paid Liberty-Web customers, the Liberty-web 6 promotion has been launched giving free unlimited internet access for a six month period in conjunction with the purchase of a new handset. After the end of the period, the monthly cost of the service is 29.90 reais. In the pre-paid segment, Infinity Web gives unlimited internet access at a fixed cost of 0.50 reais per day. With this offering, TIM is aiming to bring the customer experience of internet café users to smartphones, penetrating and developing the market of mobile internet navigation, proposing an anytime, anywhere concept of access at a more competitive rate.

With regard to equipment, TIM has continued its strategy of reducing the subsidy on handsets and promoting the use of the service.

The range of handsets is subject to continuous renewal thanks also to the presence of the new iPhone 4 and the Nokia N8. TIM has also developed the TIM Appshop , a mobile applications virtual store for Samsung, LG, Motorola, Nokia and Sony-Ericsson handsets, to encourage the use of internet from a cell phone.

In fixed line services, TIM is continuing with the *TIM Fixo Mais* offering at a cost of 39.90 reais per month (20.00 reais per month for customers who transfer their numbers (number portability) to TIM) which gives customers unlimited calls to the TIM community and 1000 minutes of calls to local off-net destinations, in addition to the ability to choose three TIM mobile numbers for free calls until the end of the year. With regard to Intelig, the *Se Liga 23* promotion has continued; this is directed at the Consumer segment with a rate of 0.23 reais per call for national and international calls from fixed lines. For the SME segment, the *Sem Fronteiras 23* rate plan has continued; this plan offers free unlimited on-net calls.

Competition

In December 2010, TIM was awarded 8 lots of GSM frequencies for an amount of 65.5 million reais with a premium averaging 32% of the auction base price. The contract is scheduled to be signed in the first months of 2011. These frequencies will improve the coverage and the service quality of the TIM service. The total of 165 GSM and 3G lots auctioned were sold for a total value of 2.7 billion reais with an average premium on the auction base price of 31%.

Argentina

The structure of the Business Unit

At December 31, 2010, the Argentina Business Unit is organized as follows:

(*) Non-operating companies

Main operating and financial data

The following table reports the main results achieved by the Argentina Business Unit in 2010 starting from the acquisition date of control by the Telecom Italia Group (October 13, 2010). The amounts presented include the effects of the application of the purchase price method. Specifically, in conformity with the requirements of IFRS 3, all the assets acquired and liabilities assumed of the acquired group were measured for their recognition at fair value. Although the measurement for the 2010 financial statements was performed in an exhaustive manner, the reporting standard provides that within 12 months of the operation such provisional values could be the subject of further analysis and possible adjustment. Besides the amounts allocated to the assets acquired and the liabilities assumed, goodwill was recorded for 166 million euros. Beginning October 13, 2010, the impacts of such measurement and especially the higher amortization charges related thereto.

	Period from October 13, 2010 to December 31, 2010	
	(millions of euros)	(millions of Argentine pesos)
Revenues	798	4,142
EBITDA	245	1,269
EBITDA margin	*30.6*	

30.6

EBIT

105

542

EBIT margin

13.1

13.1

Capital expenditures

188

975

Headcount at year-end (number)(*)

15,650

(*) Includes employees with temp work contracts: 18 at December 31, 2010.

For a better understanding of the performance of the Argentina Business Unit, the following table presents the main results achieved for the full year 2010 compared to those of 2009. This data has been restated, is unaudited and provided solely for information purposes (illustrative and comparative) and is therefore not included in the consolidated results of the Telecom Italia Group.

(millions of euros)

(millions of Argentine pesos)

	2010	**2009**	**2010**	**2009**	**Change**		
	(a)	(b)	(c)	(d)	Amount (c-d)	% (c-d)/d	% organic
Revenues	2,820	2,337					

14,627

12,170

2,457

20.2

20.2

EBITDA

924

799

4,793

4,162

631

15.2

15.2

EBITDA margin

32.8

34.2

32.8

34.2

(1.4)pp

Capital expenditures

493

428

2,558

2,231

327

14.7

Headcount at year-end (number) (*)

15,650

15,333

317

2,1

(*) Includes employees with temp work contracts: 18 at December 31, 2010 and 30 at December 31, 2009.

Revenues

As a confirmation of the performance of past years, revenues amount to 14,627 million pesos in 2010, increasing 20.2% compared to the prior year (12,170 million pesos in 2009), thanks to the growth of the customer base in the fixed and broadband businesses as well as mobile businesses, in addition to the ARPU (as can be seen in the operating data below). The main source of revenues for the Argentina Business Unit is mobile telephony which accounts for 68% of consolidated revenues, with an increase of 24% compared to the prior year.

EBITDA

Operating expenses (excluding depreciation and amortization) amount to 9,864 million pesos in 2010, increasing 1,835 million pesos or 22.9%, compared to 2009 (8,029 million pesos). Of that amount, about 60 million pesos is due to the effects of the application, in 2010 alone, of the purchase method. The remaining increase is basically due to expenses of a commercial nature and higher labor costs which are affected, among other things, by periodic revisions of union agreements. As a consequence, EBITDA shows an increase of 631 million pesos (+15.2%) reaching 4,793 million pesos.

Operating data	**2010**	**2009**	**Change**	
			amount	%
Fixed-line telephony				
Lines in service (thousands)	**4,107**	**4,060**	**47**	**1.2**
ARBU - Average Revenue Billed per User (pesos)	43	41		

	2
	4.9
Internet	
ADSL customers (thousands)	**1,380**
	1,214
	166
	13.7
ARPU (pesos)	76
	67
	9
	13.4
Mobile	
Total customers (thousands)	

18,211

16,281

1,930

11.9

Telecom Personal customers (thousands)

16,333

14,475

1,858

12.8

*% Postpaid customers **

30%

30%

-

-

MOU Telecom Personal (min/month)

102

101

1

1.0

ARPU Telecom Personal

44.4

40.6

3.8

9.4

Núcleo customers (thousands)

1,878

1,806

72

4.0

*% Postpaid customers**

15%

11%

-

-

* Includes customers with a ceiling invoiced at the end of the month that can be integrated with prepaid recharges.

Fixed-line telephony services: the increase in the number of lines in service in 2010 is about 1%, thanks mainly to the rate plans linked with internet services. Even though the fixed-line regulated services in Argentina continue to be influenced by the rate freeze imposed by Emergency Economic Law of January 2002, the Average Revenue Billed per User (ARBU) grew about 5% due to sales of plans which include traffic minutes and value-added services.

Data transmission services and broadband access: Telecom Argentina s portfolio of total broadband customers at the end of 2010 reached 1,380,000 accesses, with an increase of 166,000 accesses compared to December 31, 2009, representing growth of 13.7%. At the same time, ARPU rose thanks to a new strategy regarding prices which led to the reduction of promotional discounts associated with customer acquisition and loyalty. In the Data segment, moreover, market shares increased for dedicated Internet and IP VPN lines, as well as Datacenter services.

Overall, data transmission services and Broadband accesses brought in 1,726 million pesos of revenues in 2010, up about 30% compared to 2009 (1,332 million pesos).

Mobile telephony services: the group offers mobile telephony services in Argentina and Paraguay through the subsidiaries Telecom Personal (through the Personal brand) and Núcleo.

The Personal customer base increased by 1.9 million in 2010, arriving at a total of 16.3 million clients, 30% of whom use postpaid contracts. At the same, time, thanks to high-value customer acquisitions and clear leadership in the Smartphone segment, ARPU gained approximately 9%, exceeding 44 pesos (41 pesos in 2009). A large part of this growth is due to Value-Added Services and the Mobile Internet service which, on the whole, accounts for about 40% of revenues for mobile telephony services.

In Paraguay, the Núcleo customer base grew by about 4% over the prior year and at the end of 2010 has 1.9 million customers, of which 15% are postpaid. The company holds the title of the best providing 3G internet service (in terms of speed), giving a significant boost to the number of the customer base.

Capital expenditures

Capital expenditures stand at 2,558 million pesos, increasing 14.7% compared to the prior year. Such amount includes 551 million pesos for the capitalization of customer acquisition costs for the subscription of binding 18 - 24 month contracts for mobile customers and 12 month contracts for broadband customers.

With regard to the fixed network, capital expenditures have been directed to the expansion of the optic fiber infrastructure, DWDM technology and expansion of the IP backbone in order to improve transmission capacity and increase the access speed offered to customers.

At the same time, Personal has principally invested in the 3G network to increase capacity and expand coverage as well as in the platforms to expand the Value-Added Services and in IT projects. Capital expenditures by Nucleo are aimed mainly at the 3G access network and switching.

Headcount

Headcount is 15,650 at December 31, 2010, an increase of 317 compared to December 31, 2009 (+2.1%). At the end of 2010, the Argentina Business Unit used temp work contracts for 18 persons (30 at the end of 2009).

Commercial developments

In the fixed line residential segment, Telecom Argentina has intensified the offering of packages comprising fixed charge, minutes of traffic and value-added services with the aim of stimulating both the demand for new accesses and the growth in ARBU. Additionally, existing customers have been offered new Wi-Fi products and the supply of a second line using IP technology. For the business segment, the *Centrale Virtuale* service has been launched featuring an IP communications platform which gives new functionality, ease of use and reduced costs.

With regard to broadband, in 2010 the company expanded its offering with the launch of the Arnet WiFi + Arnet Movil service which combines an ADSL service with mobile internet.

Offerings in the corporate segment have centered on convergent ICT solutions.

The strategy for the mobile service has been characterized by the launch of new plans and packages aimed at further increasing the value added services content, supported by the continuing growth in smartphone penetration.

Further, Personal, as the first in Argentina, has experimented fourth generation mobile (4G) services on a Long Term Evolution platform, achieving connection speeds of up to 50 Mbps.

The overall situation is such that Personal will be able to address adequately the important challenges associated with the introduction of Number Portability in Argentina at the end of 2011.

Núcleo, in Paraguay, has adopted a new pricing strategy aimed at improving customers perceptions and has strengthened its offering of 3G mobile internet services.

Competition

The telecommunications market in Argentina and Paraguay continues to feature strong demand for new services and higher access speeds, in an environment which is highly competitive in the various business segments.

In particular, in the Argentina mobile segment, Personal is one of the three operators which offer services at the national level, competing with Claro (America Móvil group) and Movistar (Telefónica group). In Paraguay, Nucleo operates in a market which continues to be characterized by a high level of competitiveness based on aggressive pricing and promotion and also on the launch of product and service innovation.

In the broadband segment, the Argentine Business Unit, under the Arnet brand, competes both with the ADSL competitor Speedy (Telefónica group) and with Fibertel (Clarin group) which provides broadband access services by cable-modem.

Other significant information

During 2010, Telecom Argentina S.A., a company listed on stock exchanges in Argentina and in the United States, resumed, after nine years, the payment of dividends to shareholders. Further, in spite of this disbursement and the increase in capital expenditures compared to the preceding year, the Argentina Business Unit has improved its net financial position, reducing net exposure from 697 million pesos in 2009 to 458 million pesos in 2010.

Media

The Business Unit

The Media Business Unit operates in the Telecom Italia Media, MTV group and Network Operator business segments. In particular:

- **Telecom Italia Media:** includes activities relating to the television broadcasters La7 and La7D (the channel launched at the end of March 2010) and those of the Digital Content for the Telecom Italia Group for the creation and production of content relating to the platforms of Telecom Italia and to the web;

- **MTV group:** includes activities carried out by MTV Italia and its subsidiary MTV Pubblicità relating to the television broadcasters MTV and MTV+ (the channel launched in May 2010), the 360° Playmaker production unit, the production of multimedia musical platforms and satellite channels, in addition to MTV Mobile and Digital (Web);

- **Network Operator (TIMB):** includes activities conducted by Telecom Italia Media Broadcasting for the operation of the analog and digital broadcasting networks of La7 and MTV and the Digital Multiplex operated by the Group, in addition to accessory services and radio and television broadcasting platforms offered to Group companies and third parties.

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

In May 2009, Telecom Italia Media S.p.A. 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).

Key results in 2010 compared to 2009 are presented in the following table:

(millions of euros)	2010	2009	Change	
			(amount)	%
Revenues	258	230	28	12.2
EBITDA	13	(9)		

22

n.s.

EBITDA margin

5.0

(3.9)

EBIT

(92)

(80)

(12)

(15.0)

EBIT margin

(35.7)

(34.8)

Capital expenditures

67

53

14

26.4

Headcount at year-end (number)

777

757

20

2.6

The principal operating data of the company Telecom Media News, up to April 30, 2009, are as follows:

(millions of euros)	**1/1 4/30 /2009**
Revenues	3
EBITDA	(2)
EBIT	(2)

Tables and comments on the data for 2010 and 2009, the latter restated by fully excluding the results relating to the company Telecom Media News, are as follows:

(millions of euros)	**2010**	**2009**	**Change**

(amount)

%

Revenues

258

227

31

13.7

EBITDA

13

(7)

20

n.s.

EBITDA margin

5.0

(3.1)

EBIT

(92)

(68)

(24)

(35.3)

EBIT margin

(35.7)

(30.0)

Capital expenditures

67

53

14

26.4

Headcount at year-end (number)

777

757

20

2.6

Revenues

Revenues amount to 258 million euros, increasing 31 million euros (+13.7%) compared to 227 million euros in 2009. In greater detail:

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revenues of Telecom Italia Media S.p.A. in 2010, before intragroup eliminations, amount to 116 million euros, increasing 2 million euros (+1.7%) compared to 2009. Net advertising revenues rose by 8.5% compared to 2009, with net sales of 99 million euros compared to 92 million euros in the prior year. Sales of Digital Content for Telecom Italia are down (-2 million euros) because of lower prices in the new contract which began in April and Media Service revenues also fell (-3 million euros) following the termination of services rendered to Dahlia TV (concluded in the first half of the prior year) which had generated revenues of 4 million euros to June 2009;

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MTV group revenues amount to 98 million euros, basically unchanged, before intragroup eliminations, compared to 2009. This result was reached thanks to higher advertising revenues on the One channel (+1 million euros) and the new MTV+ channel (+1 million euros), and also the satellite channels (+2 million euros). Conversely, in 2010, MTV Mobile revenues fell by 4 million euros and revenues of the Web channels were down by 1 million euros;

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revenues from Network Operator activities, before intragroup eliminations, amount to 76 million euros, compared to 50 million euros in 2009, increasing 26 million euros (+53.1%). This result is principally due to higher revenues from the lease of bandwidths to third parties.

2010 also featured a broader spectrum of offerings by the Group with new programs and the launch of new digital terrestrial channels (La7D and MTV+) and the Web (La7.TV and the new portals Mtvnews.it and Nickjr.it), demonstrating how free TV still has a lot of potential if guided by the quality and excellence of the proposed content.

The results translated into a higher share and higher revenues and profit.

EBITDA

For the first time since 2003, EBITDA is a positive 13 million euros, reversing the trend of losses reported in 2009 (-7 million euros), with a positive change of 20 million euros.

EBITDA of Telecom Italia Media S.p.A. is -36 million euros, improving by 2 million euros compared to 2009 (-38 million euros); despite higher operating costs largely in connection with broadening the range of programming on channel La7 compared to 2009, such improvement is not only due to higher revenues but also to a reduction in costs on other operations.

EBITDA of the MTV group is 12 million euros, increasing 1 million euros compared to 2009 (11 million euros). The aforementioned stable revenues, the reduction in Playmaker activities, the decrease in costs associated with Mobile activities and the constant attention placed on operations all contributed to improving the EBITDA.

EBITDA of the Network Operator activities is 35 million euros, increasing 17 million euros compared to 2009 (18 million euros). The increase is due to higher revenues, as described above, which were only partly offset by higher operating costs that include 9 million euros for the writedown of receivables from Dahlia TV, after it was put into a wind-up on January 10, 2011.

EBIT

EBIT is a negative -92 million euros, compared to -68 million euros in 2009 and recorded a negative change of 24 million euros. The change is almost entirely due to the aforementioned improvement in EBITDA and the impairment loss on goodwill of -46 million euros recorded on the basis of the impairment test on the Media Business Unit.

Capital expenditures

Capital expenditures amount to a total of 67 million euros (53 million euros in 2009). Such expenditures refer to Telecom Italia Media S.p.A. (32 million euros), the MTV group (7 million euros) and Telecom Italia Media Broadcasting (28 million euros), mostly for the acquisition of television rights extending beyond one year (31 million euros) and the acquisition of infrastructures for the expansion and maintenance of the digital network (28 million euros).

Headcount

Headcount is 777 at December 31, 2010, with an increase of 20 compared to December 31, 2009, and includes 44 persons with temp work contracts (38 at December 31, 2009). The increase is mainly in reference to Telecom Italia Media S.p.A. as a resulting of building up its Digital Content structure and the start of the new La7D channel and programming changes.

Corporate operations

Telecom Italia Media share capital increase

On April 8, 2010, the extraordinary session of the shareholders meeting met and passed the following resolutions:

(a) cancellation of the par value of ordinary and savings shares, effective April 19, 2010;

(b) reverse stock split of ordinary and savings shares in a ratio of 1 ordinary or savings share for every 10 ordinary or savings shares held, effective April 19, 2010;

(c) necessary amendments to the bylaws in order for the measures and the characteristics of the savings shares rights to remain unchanged following the resolutions in a) and b) above;

(d) share capital increase against payment of 240,000,000 euros through a rights offering of ordinary shares to the holders of Telecom Italia Media ordinary and savings shares revoking the board s previous power conferred by the shareholders meeting to increase share capital up to a maximum of 10 million euros.

With particular reference to this last point, the operation, begun on May 24, 2010, ended on June 30, 2010 with full subscription to the 1,116,780,650 newly issued ordinary shares at the price of 0.2145 euros per share, including

0.1145 euros of paid-in capital, for a total of 239,549,449 euros, including 127,871,384 euros of paid-in capital.

The new share capital of Telecom Italia Media S.p.A., excluding paid-in capital, is 212,188,324.10 euros represented by 1,446,317,896 ordinary shares and 5,496,951 savings shares, without par value. Following the transaction, the percentage holding in Telecom Italia Media s capital held by the Telecom Italia Group rose from 67.96% to 77.42%.

The capital increase falls under the Business Plan 2010-2012 approved by Telecom Italia Media s board of directors on February 25, 2010 and is directed towards strengthening the equity structure to support Telecom Italia Media s growth in the extremely dynamic market in which it operates.

In particular, proceeds from the subscription of the shares are entirely earmarked for repayment of part of the outstanding loan with Telecom Italia and with Telecom Italia Finance.

Dahlia operation

In August 2010, Telecom Italia Media S.p.A., as the minority shareholder, took part in a capital transaction regarding Dahlia TV to which Telecom Italia Media Broadcasting supplies services for digital broadcasting capacity through the subscription of a stake for an amount of 3 million euros as an ordinary investment and 14.4 million euros through the subscription of a hybrid financial instrument made up of convertible, redeemable preferred shares, with limited voting rights, and a reduction in the bandwidth lease up to about 11 million euros for the first few years. Telecom Italia Media s share of the capital increase was subscribed to by offsetting a part of its receivable from Dahlia, following the with recourse acquisition of the residual receivables of Telecom Italia and Telecom Italia Media Broadcasting due from Dahlia.

In November 2010, Dahlia s management, partly on account of the changed market scenario, took note of the fact that the Business Plan on which the recapitalization plan was based was no long feasible and approved a new company Business Plan (2011-2013) requesting a share capital increase in cash from the shareholders for 150 million euros.

The shareholders meeting held on January 10, 2011 did not approve either the Business Plan or the proposed capital increase since the majority shareholder, APTV, stated that it no longer wanted to financially support the development of the company. Therefore on that date, the Dahlia board of directors, having taken note of a reason for the automatic dissolution of the company, asked the shareholders meeting to appoint a receiver.

The wind-up is going forward. Dahlia TV continued to broadcast until February 25, 2011, until news of the failed rescue plan proposed by certain shareholders became public, ending with the interruption of broadcasting on that date.

Principal changes in the regulatory framework

Romani Decree

It should be noted that Legislative Decree 44/2010 requires that AGCom s implementing regulations to which the primary legislation refers and the authorizations already granted, should be revised within 180 days of the passing of the law in order to reflect the changes made to the TURTV (Consolidated Broadcasting Act).

In this connection, AGCom has completed the two public consultations (Decisions 258/10/CONS and 259/10/CONS) on the regulations for the supply of linear audiovisual media services on communications channels other than cable, satellite or terrestrial and for the supply of on-request media services.

As a supplier of media services, supplier of associated interactive services and as an operator of a network, the Telecom Italia Media group is subject to the regulations of the *Testo Unico*.

In the context of the migration to digital terrestrial, the Telecom Media group, already having analog TV concessions for La7 and MTV, organized itself to act as a broadcaster from a digital terrestrial platform and as an operator of a digital terrestrial network.

In fact, since May 2006, Telecom Italia Media Broadcasting has been the Group s network operator and Telecom Italia Media and MTV Italia have operated as broadcasters.

In particular, on May 5, 2010, the Ministry for Economic Development Communications granted to Telecom Italia Media S.p.A. and MTV Italia S.r.l. the status of national broadcasters for the digital terrestrial platform of the national channels La7 and MTV: Music Television (the former analog concessions). Telecom Italia Media also holds the general authorization to supply interactive services on a digital terrestrial platform.

National Plan for the assignment of digital Frequencies

With the publication at the end of June 2010 of Decision 300/10/CONS regarding the National Plan for the Assignment of Digital Frequencies (PNAFD), the Authority has partially resolved a part of the uncertainty affecting the assignment of frequencies to the national operators.

However, the Authority has ratified the frequency assignments which are damaging for Telecom Italia Media but has not defined the procedures for the transition from the present situation to the PNAFD and has not identified the frequencies for the purposes of the competitive procedures for the assignment of digital dividend frequencies.

Decision 300/10/CONS fixes the frequencies for 25 national networks: (i) 2 networks for the requirements of public service, the regionalized MUX and the MUX DVBH or DVBT2, (ii) 20 DVBT networks with approximate coverage of 80% of the territory and (iii) 3 DVBH networks of which 2 for the conversion of the existing networks (Mediaset and H3G) restricting the use of these last two.

The Decision sets the internal digital dividend at six networks, 5 DVBT networks and 1 DBVH network, to be assigned through competitive beauty contest procedure, without indication of their values and establishes as external digital dividend, to be utilized from 2015 for telecommunication services compliant with the Community objectives, the channels 61 to 69 UHF, to be assigned through competitive auction procedures.

With regard to the provisions of Decision 181/09/CONS concerning the criteria for the digitalization of the television networks, the Decision on the PNAFD:

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introduces the k-SFN technology for certain networks which would otherwise not achieve the 80% territorial coverage;

.

legitimates the assignment of more frequencies to the public service MUX;

.

authorizes RAI to operate the DVBH frequency in DVBT2.

Telecom Italia Media, contesting the ratification of the PNAFD assignment plan containing the present frequency allocation which is damaging to its interests, the unlawful dispensations favoring RAI and the unlawful additional frequency assignments to RAI and the non-equivalence of the k-SFN technology to the SFN technology, has presented additional grounds to its existing appeal against Decision 300/10/CONS concerning digital frequencies.

Regulation of channel numbering

With Decision 366/10/CONS dated July 15, 2010 (published in the Gazzetta Ufficiale on August 10, 2010), AGCom established the automatic channel numbering plan for digital terrestrial TV, allocating the first nine numbers on the remote control to the ex analog channels with information obligations (the so-called generalist channels) and consequently allocating the number 7 to La7 and the number 8 to MTV: Music Television.

For the definitive allocation, the Authority has provided for two invitations for bids, one for the areas to be digitalized and one for the areas already digitalized. The two invitations were issued by the Ministry of Economic Development Communications Department in the middle of August.

Telecom Italia Media and MTV have submitted applications on behalf of La7 and MTV and for the new digital terrestrial channels (La7d, MTV+), for the corresponding channels in HD, re-run channels (+1) and for the services associated with them (catch-up and on-demand). Telecom Italia Media has also applied for the electronic program guide and for access on digital terrestrial to Telecom Italia services such as Cubovision and web TV.

On November 24, 2010, the Ministry of Economic Development-Communications Department allocated the numbers 7 and 8 on the remote control to La7 and MTV and the numbers 29 and 67 to the new digital channels La7d and MTV+.

The Ministry also allocated numbers to the corresponding channels in HD 507, 508, 529 and 567 and to the numbers corresponding to the re-run channels - 107, 108, 229 and 267. Numbers have also been assigned for

on-demand and catch-up TV services (807 and 907 for La7, 808 and 908 for MTV, 829 and 929 for La7d and 867 and 967 for MTV+).

On November 26, 2010 the Ministry allocated the numbers 888, 999 and 998 to digital terrestrial access to the Telecom Italia Group services.

Telecom Italia Media and MTV have filed as opponents in various appeals which dispute for a variety of reasons the legitimacy of the allocation of channels 7 and 8 on the remote control to La7 and MTV, respectively. Among these are: (i) the appeal by the local Apulian broadcaster Telenorba which holds the allocation plan to be unlawful since the numbers 10 to 19 rather than 7 to 9 have been allocated to local broadcasters, claiming the existence of an historic use of these latter numbers by the local broadcasters; (ii) the appeal by the local Sardinian broadcaster Videolina which disputes the non-allocation of the number 9 and in any case the numbering of just one digit; (iii) the appeal by the

Sardinia Region contesting the non-allocation to local broadcasters of a numbering of just one digit; (iv) the appeal by SKY Italia contesting the non-allocation of the number 10 position to the Cielo channel and the constitutional illegitimacy of the entire channel numbering regulation; and (v) the appeal by TBS-Retecapri which contests the generalist typology for MTV and the consequent allocation of number 8.

Digitalization of TV networks and frequencies

With the implementation by the Ministry of Economic Development - Department of Communications of the criteria for the digitalization of TV networks under Decision 181/09/CONS and in contrast to what occurred in Sardinia, the Telecom Italia Media group has been assigned frequency resources for the construction of only three digital multiplexes with the consequence that it is unable to convert all the analog and digital networks that it operates.

In the presence of the rejection by the Ministry of the applications for annulment under the right of self-redress, in an appeal to the Lazio TAR (the appeal was made initially to the President of the Republic and only after the transposition of Rete A/the Espresso group did Telecom Italia Media apply to the TAR), the Group has challenged the Ministry s digital frequency assignment rulings adopted in violation of the principle sanctioned by industry legislation and affirmed in Decision 181/09/CONS according to which each operator is entitled to convert to digital each of the digital and analog networks which it lawfully operates (the so-called one for one criterion).

Additional grounds have been submitted opposing any ruling and measure which established the assignment of rights of use to only three digital frequencies rather than four.

On July 22, 2010, the European Commission announced its acceptance of the commitments made by SKY Italia for admission to the bid for the digital dividend assignment procedure. SKY Italia has undertaken to bid for a single digital MUX and, if successful, to operate only free-to-air on the acquired MUX.

Telecom Italia Media has appealed to the Court of Justice of the European Union against the European Commission s decision to admit SKY as a new entrant to the bid for the digital dividend assignment procedure on the grounds that the decision erroneously equates TI Media with RAI and Mediaset, incumbent operators in the terrestrial network market.

On October 26, 2010, with Decision 497/10/CONS, the AGCom published the criteria for the competitive procedure for the assignment of the internal digital dividend.

The Decision confirms the framework established in the public consultation and erroneously equates TI Media with RAI and Mediaset, *incumbent* operators in the terrestrial network market. As a result of this association, TI Media may enter the competitive procedure for Lot B (2 DVB-T frequencies) with RAI and Mediaset and for Lot C (1 DVB-H/DVB-T2 frequency) but is not allowed to bid for Lot A (3 DVB-T frequencies), the latter being restricted to new entrants and minor operators, in which group AGCom has classified SKY Italia.

In line with the appeal already filed on the question of digital frequencies and with the appeal against the EU Commission s decision to admit SKY to the bidding, TI Media has appealed against AGCom Decision 497/10/CONS to the Lazio TAR.

Commercial developments

On March 22, 2010, La7D was born, a free digital terrestrial channel which follows the image and editorial line of La7 and which proposes La7 s symbolic programs in new time-slots along with new lighter programs closer to the young and female audiences to which it is directed.

In May 2010, the new channel MTV+ was born, available on digital terrestrial and on SKY. MTV+ satisfies at 360 degrees the passion for music and the desire to explore the world of the 7 notes. The daily menu of specials, documentaries, films and telefilms, theme hours and interactive charts satisfies the target audience s desire to be informed thanks to a playlist which fully represents the present state of pop culture

Olivetti

The Business Unit

The Olivetti group mainly operates in the sector of office products and services for Information Technology. Thanks to its vast offering of cutting-edge hardware and software, its Solution Provider activities offer solutions able to automate processes and business activities for small and medium enterprises, large corporations and vertical markets. The offering comprises digital printing systems, notebooks and personal computers, ink-jet office products, specialized applications for the banking field and commerce, information systems for managing forecast games, electronic voting and e-government. It also operates with a dedicated structure in the field of documental services (digital management of company documents), caring services (specialist help-desk) and technical assistance. Olivetti also manufactures products using silicon technology (ink-jet print heads and MEMS - Micro Electro-Mechanical Systems and industrial applications). During 2010, Olivetti continued the process begun in 2009 of expanding and diversifying the offering by concentrating on both the development of software solutions and applications services for businesses and public administrations, and also specialized devices.

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

The structure of the Business Unit

The Business Unit is organized as follows (main companies only):

Main operating and financial data

Key results in 2010 compared to 2009 are presented in the following table:

(millions of euros)	2010	2009	Change	
			(amount)	%

Revenues	391	350	41	11.7
EBITDA	(19)	(14)	(5)	(35.7)
EBITDA margin	*(4.9)*	*(4.0)*		
EBIT	(24)	(19)	(5)	(26.3)
EBIT margin	*(6.1)*			

	(5.4)
Capital expenditures	
	5
	4
	1
	25.0
Headcount at year-end (number)	
	1,090
	1,098
	(8)
	(0.7)

Revenues

Revenues amount to 391 million euros in 2010, increasing 41 million euros compared to 2009.

The revenue increase is across all Commercial Channels, thanks also to the first positive effects of the renewal of the offering linked to the strategic repositioning of the company in the Information Technology market. Particularly important is the contribution to sales by the new product lines (Data Cards, Netbooks and Notebooks) in the Telecom Italia and Olivetti channels.

In Italy, higher sales were recorded in the indirect channel (dealers and distributors) particularly for professional office products, fiscal cash registers and new product lines (Netbooks and Notebooks) which more than compensate for the decline in sales of products using ink-jet technology (faxes, multifunctional printers and accessories). The direct channel (sales to large customers) grew compared to 2009 thanks to an order for about 8,000 specialized terminals for the largest gaming operator in Italy. Installations, begun in 2009, are continuing on an important project in collaboration with Telecom Italia S.p.A. for the supply of specialized terminals for payments/services to authorized tobacconists in Italy.

EBITDA

EBITDA is a negative 19 million euros and recorded a negative change of 5 million euros compared to the prior year. The change in EBITDA can be traced to employee benefits expenses for 5 million euros, the mobility procedure under Law 223/91 owing the union agreements signed on January 11, March 8, and September 30, 2010 for 4 million euros and other expenses for termination benefit incentives in the foreign affiliates for 1 million euros.

EBITDA generated by the increase in revenues offset the fall caused by the decline in certain traditional products (faxes, for example).

Organic EBITDA is unchanged, as detailed in the following table:

	(millions of euros)
	2010
	2009

	Change
HISTORICAL EBITDA	
	(19)
	(14)
	(5)
Effect of the change in the scope of consolidation	
	(1)
	1
Expenses for mobility under Law 223/91	
	4
	4
COMPARABLE EBITDA	
	(15)
	(15)
	-

EBIT

EBIT is a negative 24 million euros and recorded a negative change of 5 million euros compared to 2009, owing to the reasons described under EBITDA.

Organic EBIT is unchanged, as detailed in the following table:

(millions of euros)	**2010**	**2009**	**Change**
HISTORICAL EBIT	**(24)**	**(19)**	**(5)**
Effect of the change in the scope of consolidation		(1)	1
Non-organic expenses already described under EBITDA			

	4
	-
	4
EBIT COMPARABLE	**(20)**
	(20)
	-

Capital expenditures

Capital expenditures amount to 5 million euros, increasing 1 million euros over the same period of the prior year.

Headcount

Headcount is 1,090 (1,001 in Italy and 89 foreign) at December 31, 2010, a reduction of 8 compared to December 31, 2009 (1,098, of whom 1,005 in Italy and 93 foreign). During the period, 38 persons were added and 46 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

Commercial developments

During 2010, Olivetti launched a series of initiatives which mark new important milestones for the company in its progress towards strategic repositioning, begun last year with the launch of the Documental Hub for the digital managing of documents, which has allowed entry into the software solutions and IT services markets. The new initiatives are distinguished by their integration of hardware products with evolved services and applications, operating with Telecom Italia and using qualified partners.

In connection with the Documental Hub offering, significant orders have already been taken, such as the solution developed for a chain of stores in the fashion sector which makes it possible to integrate the management of the fiscal documentation from 2000 points of sale.

In March 2010, Olivetti submitted a comprehensive proposal for the digitalization of schools: interactive multimedia blackboards, notebook computers, technology platforms for interaction between school and family, multi-media teaching content and support.

Olivetti is aiming at the digital schoolroom with the first complete offer for the digitalization of the school environment. Scuola Digitale Olivetti includes interactive multimedia blackboards, Olivetti Notebooks, Netbooks or Tablet PCs for teachers and pupils, servers and projectors and, in addition, the services platform for interaction between school and family (the Olischool offering) provided on an on demand basis through the Telecom Italia Data Centers to allow interaction between school and family and the sharing on line of the lessons given in the classroom, the multimedia teaching content and the support services throughout the country. The Olivetti offering also integrates the multimedia teaching content of RCS *Libri*, leader in the scholastic publishing sector and the technical support services from the network of highly qualified dealers across the entire national territory.

With this new initiative, Olivetti is aiming at a market worth over 1.8 billion euros worldwide to which can be added the market for corporate training. For interactive blackboards alone, the expected average annual growth rate to 2012 in Italy is 56%.

In March 2010, Olivetti re-entered the PC market with the launch of a range of new generation Notebook and Netbook computers integrated with innovative software services available in the on demand mode. The new Notebooks and Netbooks offering bring together design and innovation utilizing also new Intel processors and the operating system Microsoft Windows 7. Initially available with the Olivetti PC Guard services for the protection of PC and data, the new line of Notebooks and Netbooks will later be integrated with a broad range of evolved services and applications capable of optimizing the costs and performance of businesses thanks to services provided using software as a service and pay-per-use models. This allows businesses to access solutions which are constantly updated without investing in technology infrastructure.

The new product offering also utilizes the technological competence of Advalso, the services center of Olivetti for customer support services and IT support, the Telecom Italia Data Centers for the provision of the most evolved software services and Olivetti s own network of dealers. After the launch on the Italian market, the new service offering will be marketed in the countries in which Olivetti is present with its sales offices.

With this new initiative, addressed to business customers and, through Telecom Italia, to consumers, Olivetti is aiming at a market which, in its data and PC protection services, is new and for which a trend of significant growth is expected.

Promotion and sale in Latin America of the Smart Town offering continued in the second half of the year. This is an integrated solution for the intelligent remote-management of external and/or public utility and security lighting systems. The first applications in the region are in progress, with pilot installations and participation in bids for the automation of lighting in Argentina, Brazil and Mexico.

In February 2011 the tablet computer has been launched with applications for both consumer and business users.

International Investments

BBNed group

At September 30, 2010, following the decision taken for its disposal, the BBNed group was considered as a disposal group under IFRS 5 (*Non-current assets held for Sale and Discontinued Operations*). The sale transaction was finalized on October 5, 2010 after obtaining authorization from the competent Dutch authorities.

Key results of the BBNed group up to the date of its sale are summarized below.

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

Key results in the first nine months of 2010 and the year 2009 are presented in the following table:

BBNed group

(millions of euros)

1/1 9/30/2010

2009

Revenues	62	87
EBITDA	11	15
EBITDA margin	*17.7*	*17.2*
EBIT	(3)	(5)
EBIT margin	*(4.8)*	*(5.7)*
Capital expenditures	4	6
Headcount at period-end (number)	320	347

Other Investments Accounted for Using the Equity Method

ETECSA

Held by: Telecom Italia International 27%

At December 31, 2010, EtecSA Cuba, after the decision to proceed with its sale, which actually took place on January 31, 2011, is considered an investment held for sale. Consequently, at the end of the year, the entire amount of the investment, equal to 389 million euros, was reclassified to Discontinued operations/Non-current assets held for sale of a non-financial nature in the statement of financial position.

Further details are provided in the Note Events subsequent to December 31, 2010 of the consolidated financial statements at December 31, 2010 of the Telecom Italia Group.

Review of Operating and Financial Performance - Telecom Italia S.p.A.

(millions of euros)	**2010** **(a)**	**2009** **(b)**	**Change (a-b)** amount	%	% organic

Revenues	**18,985**	**20,474**	(1,489)	(7.3)	(7.3)
EBITDA	**9,089**	**9,508**	(419)	(4.4)	(2.4)
EBITDA margin	*47.9%*	*46.4%*	*1.5*		
Organic EBITDA margin	*49.8%*	*47.3%*			

				2.5
EBIT	**4,969**	**5,161**	(192)	(3.7)
				(0.8)
EBIT margin	*26.2%*	*25.2%*	*1.0*	
Organic EBIT margin	*28.1%*	*26.3%*	*1.8*	
Profit before tax	**4,610**	**2,456**	2,154	

◦

Profit for the year

3,513

1,399

2,114

◦

Capital expenditures

3,018

3,406

(388)

net financial debt

36,586

39,695

(3,109)

headcount at year end (*) (number)

49,636

54,236

(4,600)

(*) at 12/31/2010 and at 12/31/2009

Operating performance

The Parent, **Telecom Italia S.p.A.,** reports a profit of 3,513 million euros in 2010, with an increase of 2,114 million euros compared to 2009.

Revenues

Revenues amount to 18,985 million euros, decreasing 1,489 million euros (-7.3%) compared to 2009; the organic change is the same.

The trend in revenues shows the following changes in the commercial segments compared to 2009:

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a contraction in revenues in the Consumer segment (9,687 million euros, decreasing 11.6% compared to 2009, or -1,266 million euros), referring to both services (-1,049 million euros) and product sales (-257 million euros). The reduction in revenues from services is largely attributable to the contraction of revenues from traditional voice services, particularly Fixed voice (-212 million euros, or -14.1%) and outgoing Mobile voice (-486 million euros, or -14.3%). In order to meet the challenge of fierce competitive pressure which dominated the Consumer market, new sales policies were introduced at the end of 2009 aimed at regaining the competitiveness of the Company s offerings through more transparent and cheaper rate plans. Thanks to such steps, during 2010, there was a halt in the contraction of the customer base. As far as internet services are concerned, revenues increased compared to 2009 due to the continuous growth of Fixed (+50 million euros) and Mobile (+20 million euros) Broadband services

.

a reduction in revenues in the Business segment (3,509 million euros, decreasing 5.9%, or -221 million euros compared to 2009). Despite the decline, the gradual recovery noted in the previous quarters is affirmed, with a considerable improvement reported compared to the data in the previous year (-9.7%). Such change is the result of the sales policies introduced as early as the second half of 2009, particularly regarding the *Impresa Semplice* brand, aimed at containing the erosion of both fixed and mobile customer bases and obtaining a better quality of acquired customers. Specifically, note should be taken of the increase in the revenues of Fixed Broadband (+20 million euros) and Mobile Browsing (+23 million euros, or an increase of 14.8% compared to 2009);

.

a reduction in revenues in the Top segment (3,496 million euros, decreasing 4.8% compared to 2009, or -178 million euros), with a trend gradually gaining ground over the previous quarters thanks especially to the continuing high level of sales which was a recurring phenomenon in the last quarter. The Voice and Data areas were penalized the most by the difficulties in the overall economic scenario and the growing pressure over prices, recording respectively a contraction of 13.1% (-145 million euros) and 6.4% (-11 million euros). In the Mobile area, revenue growth is confirmed (+7.4%, or +50 million euros), thanks to the continuing expansion of the customer base and the growth of VAS (+50 million euros, or +16.4%);

.

an increase in revenues in the National Wholesale segment (+80 million euros, or +4.0%), generated by the growth of the customer base of OLOs in the services Local Loop Unbundling, Wholesale Line Rental and Bitstream services.

EBITDA

EBITDA is 9,089 million euros, decreasing 419 million euros (-4.4%) compared to 2009. The organic change in EBITDA is a negative 2.4% (-232 million euros). The EBITDA margin grew from 46.4% in 2009 to 47.9%; at the organic level, the EBITDA margin is 49.8% (47.3% in 2009).

Non-organic income and expenses excluded from the calculation of organic EBITDA are as follows:

(millions of euros)	**2010**	**2009**	**Change**
Expenses for mobility+ under Law 223/91	245	-	245
Disputes and settlements	91	154	(63)

Other expenses, net	30	25	5
Total non-organic (income) expenses	**366**	**179**	**187**

At the EBITDA level, the negative effects described under the comments on revenues are partly offset by the reduction in operating costs which are analyzed below.

Acquisition of goods and services

Acquisition of goods and services stands at 6,651 million euros, decreasing 1,095 million euros (-14.1%) compared to 2009 (7,746 million euros). The change is attributable to a generalized reduction in all components, particularly the purchase costs of raw materials (mostly purchases of goods and equipment for resale in the fixed and mobile segments), the portion of revenues to be paid to other operators (due to the development of the Community TIM rate plans and also the termination rates of voice calls on the network of other operators from fixed and mobile networks) and the commercial costs, particularly for customer acquisition. This last reduction is connected with the strategy focusing commercial efforts on higher-value customers.

Details are as follows:

(millions of euros)	**2010**

		2009	**Change**
Purchases of goods	895	1,393	(498)
Portion of revenues to paid to other operators and interconnection costs	2,055	2,379	(324)
Commercial and advertising costs	982	1,152	(170)
Consulting and professional services	155	173	

			(18)
Power, maintenance and outsourced services	942	1,018	(76)
Rent and leases	843	875	(32)
Other service expenses	779	756	23
Total acquisition of goods and services	**6,651**	**7,746**	**(1,095)**

As a percentage of revenues, the acquisition of goods and services is 35% (37.8% in 2009).

Employee benefits expenses

Details are as follows:

(millions of euros)	2010	2009	Change
Ordinary expenses of employees	2,876	3,120	(244)
Expenses for mobility under Law 223/91	245	-	245
Total employee benefits expenses	**3,121**	**3,120**	**1**

The reduction of 244 million euros in the ordinary expenses of employees in Italy is mainly due to the contraction in the average headcount of the salaried workforce (-3,104 compared to December 31, 2009, of whom -500 are under solidarity contracts) countered mainly by the effect of the increase in minimum salaries established by the TLC collective national labor contract renewed on October 23, 2009. Also contributing to the decrease in these expenses is the sale of the IT business to Shared Service Center in May 2010 (-1,378 persons (average), equal to approximately -77 million euros).

Expenses for mobility under Law 223/91 total 245 million euros as a result of the August 4, 2010 Agreement signed with the labor unions. The agreement covers the steps to be taken regarding employment levels during the years of the Business Plan 2010 2012, with the expectancy, among other things, of recourse to a new voluntary mobility procedure for 3,900 people in the period 2010-2012.

In determining the amount of the provision charge, account was taken of the valuation of the cost of the new mobility procedure and the estimate of the higher mobility expenses for any integration of the cost for those terminated under pre-June 2010 mobility, due to the coming into force of the so-called Economic Maneuver as a result of the postponement of the pension windows. Such expenses would be determined by the eventuality that the competent institutions would not pass an adjusting maneuver and that Telecom Italia, of necessity, would be required to safeguard the effectiveness of the agreements that have already been reached.

In 2010, the average headcount of the salaried workforce, including those with temp contracts, is 50,076 (54,558 in 2009). Headcount at December 31, 2010 is 49,636 with a reduction of 4,600 compared to December 31, 2009.

Other operating expenses

Details are as follow:

(millions of euros)

	2010	**2009**	**Change**

Writedowns and expenses in connection with credit management	310	396	(86)
Provision charges	60	135	(75)
Telecommunications operating fees and charges	53	49	4
Indirect duties and taxes	84	81	3
Penalties, settlement compensation and administrative fines	105	72	33

Association dues and fees, donations, scholarships and traineeships	22	24	(2)
Sundry expenses	32	50	(18)
Total	**666**	**807**	**(141)**

Other operating expenses totaling 666 million euros also contracted by 141 million euros compared to 2009 (807 million euros) due to a generalized decrease in all line items, particularly writedowns and expenses in connection with credit management and provision charges.

Penalties, settlement compensation and administrative fines record an increase of 33 million euros as a result of settlements reached during the year. Indirect duties and taxes include expenses for 15.6 million euros for the payment, made during the year, of VAT relating to invoices of the period 2005-2009 for exports to operators in San Marino because the tax documentation was found to be incomplete.

Depreciation and amortization, Gains on disposals of non-current assets and Impairment losses on non-current assets

Depreciation and amortization charges are 4,107 million euros (4,303 million euros in 2009), decreasing 196 million euros and referring to tangible assets for 147 million euros and intangible assets for 49 million euros. The reduction in depreciation is largely on account of the decrease in amortizable assets owing in part to the reduction of capital expenditures in recent years, especially for the rented cell phones (-68 million euros) and the submarine network (-38 million euros). The decrease in the amortization charge of intangible assets is mainly due to a lower amount of amortizable applications development regarding the mobile platforms.

Capital expenditures total 3,018 million euros (3,406 million euros in 2009), decreasing 388 million euros, principally due to the impact of the 2009 purchase of part of the IPSE frequencies (89 million euros) and the continuation of the plans for the optimization and rationalization of capital expenditures particularly with respect to Network Platforms, Service Platforms, IT and Service Creation. Also contributing to the reduction is the new commercial policy regarding mobile handsets which is more selective and focused on high-value customers.

Gains on disposals of non-current assets total 3 million euros and can principally be ascribed to the disposal of buildings.

Losses include 7 million euros of disposals of rented materials returned to the warehouse and scrapped and disposal of a software platform. In 2009, the losses on disposals of non-current assets had amounted to 51 million euros largely for the disposal of the credit management platform of the fixed consumer segment.

Finally, impairment losses on non-current assets are 9 million euros (5 million euros in 2009), of which 5 million euros refers to the writedown of the development of the information systems no longer in use and 4 million euros to the writedown of unused network materials and telephone systems in the process of being replaced with new more technologically advanced materials.

EBIT

EBIT is 4,969 million euros, decreasing 192 million euros (-3.7%) compared to 2009. The organic change in EBIT is a negative 0.8% (-44 million euros). The EBIT margin is 26.2% (25.2% in 2009); at the organic level, the EBIT margin is 28.1% (26.3% in 2009).

Non-organic income and expenses excluded from the calculation of organic EBIT are as follows:

(millions of euros)

	2010	**2009**	**Change**

Non-organic expenses already described under EBITDA	366	179	187
Impairment losses on non-current assets	-	39	(39)
Total Non-organic (revenues and income) / costs and expenses	**366**	**218**	**148**

Income (expenses) from investments

Details are as follows:

(millions of euros)	2010	2009	Change
Dividends	2,357	166	2,191
Other income and gains on disposals of investments	1	4	(3)
Impairment losses on financial assets	(562)	(537)	(25)
Total	**1,796**		

(367)

2,163

Specifically:

.

dividends mainly refer to Telecom Italia International (2,000 million euros) and Telecom Italia Deutschland Holding (345 million euros);

.

the year 2009 had included the gain on the sale of the stake in Luna Rossa Challenge 2007;

.

impairment losses are mainly in respect of the writedowns of the investments in Telecom Italia Deutschland Holding (352 million euros) following the reduction in the equity of the company after the distribution of reserves, Telecom Italia Media (162 million euros) on the basis of the results of the impairment test, Olivetti (18 million euros), Tiglio I (13 million euros) and Shared Service Center (10 million euros).

Finance income (expenses)

Details are as follows:

(millions of euros)

2010

2009

Change

Income on bonds bought back	-	3	(3)
Early closing of cash flow hedge derivatives	(9)	20	(29)
Net finance expenses, fair value adjustments of derivatives and other items	(2,146)	(2,361)	215
Total	**(2,155)**	**(2,338)**	**183**

In particular, the improvement of 215 million euros in Net finance expenses, fair value adjustments of derivatives and other items refers to the change in interest rates and the reduction in debt exposure.

Income tax expense

Income tax expense is 1,097 million euros, increasing 40 million euros compared to 2009 due to:

.

lower prior years   positive adjustments (62 million euros). On this point, income taxes in 2009 benefitted from the reimbursement application for prior years   IRAP deductibility for 35 million euros;

.

lower income taxes for the year (about 22 million euros) as a result of the reduction in the taxable base and other changes.

Consolidated financial position performance

Financial position structure

(millions of euros)

12/31/2010

12/31/2009

Change

	Restated		
	(a)	(b)	(a-b)
ASSETS			
Non-current assets	68,717	70,243	(1,526)
Current assets	9,909	12,389	(2,480)
	78,626	**82,632**	**(4,006)**
EQUITY AND LIABILITIES			

Equity	25,564	23,068	2,496
Non-current liabilities	39,283	42,579	(3,296)
Current liabilities	13,779	16,985	(3,206)
	78,626	**82,632**	**(4,006)**

Net financial debt and cash flows

Net financial debt

Net financial debt is 36,586 million euros, decreasing 3,109 million euros compared to 39,695 million euros at the end of 2009.

In addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator is also presented denominated adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

In contrast to the presentation in the 2009 financial statements, non-hedging derivatives were reclassified by extrapolating the non-current from the current component. Previously, this type of derivatives was classified only in current liabilities. Further details are provided in the Note Reclassifications in the Telecom Italia S.p.A. financial statements at December 31, 2010.

It should also be recalled that starting from May 2009, steps were taken to centralize derivatives in Telecom Italia S.p.A. so that the Parent would be the sole counterpart of the banking system for derivative transactions as far as the European companies are concerned. As a result, Telecom Italia S.p.A. has two non-hedging derivatives (one with the bank and the other with the same but opposite sign with the intercompany) and maintains the hedging relationship carried by the subsidiary and the Group.

The composition is the following:

Net financial debt

(millions of euros)

	12/31/2010	**12/31/2009**	**Change**
		Restated	
	(a)	(b)	(a-b)
NON-CURRENT FINANCIAL LIABILITIES			

Bonds	16,406	17,286	(880)
Amounts due to banks, other financial payables and liabilities	19,312	21,401	(2,089)
Finance lease liabilities	1,436	1,545	(109)
	37,154	**40,232**	**(3,078)**
CURRENT FINANCIAL LIABILITIES (1)			
Bonds	3,067		

	1,985	1,082	
Amounts due to banks, other financial payables and liabilities	2,777	5,592	(2,815)
Finance lease liabilities	212	236	(24)
	6,056	**7,813**	**(1,757)**
GROSS FINANCIAL DEBT	**43,210**	**48,045**	**(4,835)**

NON-CURRENT FINANCIAL ASSETS

Financial receivables and other non-current financial assets	2,100	2,060	40
	2,100	**2,060**	**40**

CURRENT FINANCIAL ASSETS

Securities other than investments	1,159	1,321	(162)

Financial receivables and other current

financial assets	602	733	(131)
Cash and cash equivalents	2,763	4,236	(1,473)
	4,524	**6,290**	**(1,766)**
TOTAL FINANCIAL ASSETS	**6,624**	**8,350**	**(1,726)**
NET FINANCIAL DEBT CARRYING AMOUNT	**36,586**	**39,695**	**(3,109)**

Reversal of fair value measurement of derivatives and related financial assets/liabilities	
	(1,046)
	(910)
	(136)
ADJUSTED NET FINANCIAL DEBT	
	35,540
	38,785
	(3,245)
Breakdown as follows:	
TOTAL ADJUSTED GROSS FINANCIAL DEBT	
	40,915
	46,287
	(5,372)
TOTAL ADJUSTED FINANCIAL ASSETS	
	(5,375)
	(7,502)
	2,127

(1) of which current portion of medium/long-term debt:

	Bonds

3,067

1,985

1,082

Amounts due to banks, other financial payables and liabilities

1,459

2,947

(1,488)

Finance lease liabilities

212

236

(24)

The non-current portion of gross financial debt is 37,154 million euros (40,232 million euros at the end of 2009) and represents 86% of total gross financial debt.

In keeping with the Group s objectives in terms of debt composition and in accordance with the adopted Guideline policy for debt management using derivative instruments , Telecom Italia S.p.A., in securing both loans from third parties and intercompanies, uses IRS and CCIRS derivative financial instruments to hedge its liabilities. Further details are provided in the Note Derivatives .

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on financial instruments denominated in currencies other than euro and for the management of 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 and interest rate of future variable contractual flows.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2010:

Net operating free cash flow

(millions of euros)	**2010**	**2009**	**Change**
EBITDA	9,089	9,508	(419)
Capital expenditures on an accrual basis	(3,018)	(3,406)	388

Change in net operating working capital:	(237)	(209)	(28)
Change in inventories	*55*	*(52)*	*107*
Change in trade receivables and net amounts due on construction contracts	*292*	*402*	*(110)*
Change in trade payables (*)	*(587)*	*(564)*	*(23)*
Other changes in operating receivables/payables	*3*	*5*	*(2)*

Change in provisions for employees benefits	57	(160)	217
Change in operating provisions and Other changes	(390)	57	(447)
Net operating free cash flow	**5,501**	**5,790**	**(289)**
% of Revenues	*29.0*	*28.3*	

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

The reduction in net operating free cash flow in 2010 compared to 2009 (-289 million euros) is principally due to the decrease in EBITDA and the change in working capital, compensated in part by lower requirements for capital expenditures.

The following also had an impact on the trend of net financial debt during 2010:

Capital expenditures flow

Capital investments refer to intangible assets (1,230 million euros) and tangible assets (1,788 million euros).

Disposal of investments and other divestitures flow

Disposal of investments and other divestitures flow amounts to 37 million euros and mainly refers to payments of 30 million euros for the adjustment on the contribution of the IT business to Shared Service Center, and 7 million euros for the price adjustment on the sale of Liberty Surf group, compensated in part by the collection of the sales price on the disposal of the investment in LI.SIT (2 million euros).

Financial investments flow

Financial investments flow amounts to 199 million euros for payments made to subsidiaries and associates for share capital increases or replenishment of share capital and/or the coverage of losses (of which 187 million euros is for Telecom Italia Media and 10 million euros in favor of Shared Service Center).

Dividends flow

Dividends paid amount to 1,034 million euros. Dividends collected from Group companies total 2,357 million euros and particularly include the dividends collected from Telecom Italia International (2,000 million euros) and Telecom Italia Deutschland Holding (345 million euros).

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, made in 2010, of income taxes (for 1,322 million euros), net finance expenses (for 2,155 million euros) and the change in non-operating receivables and payables.

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As regards the financial debt of Telecom Italia, the following is also mentioned:

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized in 2010 resulted in a positive effect on net financial debt at December 31, 2010 of 1,178 million euros (1,010 million euros at December 31, 2009).

Bonds

Bonds at December 31, 2010 total 19,473 million euros (19,271 million euros at December 31, 2009). Their nominal repayment amount is 18,623 million euros, decreasing 73 million euros compared to December 31, 2009 (18,696 million euros).

The change in bonds during 2010 is as follows:

(millions of original currency)

currency

amount

NEW ISSUES

Issue date

Telecom Italia S.p.A. 1,250 million euros 5.25% maturing 2/10/2022

Euro

1,250

2/10/2010

REPAYMENTS

Repayment date

Telecom Italia S.p.A. Floating Rate Notes 796 million euros

Euribor 3 months+ 0.20% (1)

Euro

796

6/7/2010

Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a

repayment premium

Euro

574

1/1/2010

(1) Net of 54 million euros bought back by the company during 2009.

In 2010, Telecom Italia S.p.A. did not repurchase own bonds.

In reference to the **Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group**, the nominal amount at December 31, 2010 is equal to 305 million euros and decreased by 43 million euros compared to December 31, 2009 (348 million euros).

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Revolving Credit Facility e Term Loan

The following table shows the composition and the drawdown of the syndicated committed credit lines available at December 31, 2010. These are represented by the Revolving Credit Facility for a total of 8 billion euros expiring August 2014 and the new syndicated revolving line for a total of 1.25 billion euros signed February 12, 2010 and expiring February 2013. In January 2010, the syndicated line denominated Term Loan 2010 for 1.5 billion euros became due and was repaid from cash resources:

	12/31/2010		**12/31/2009**	
(billions of euros)	Agreed	Drawn down	Agreed	Drawn down

Term Loan expiring 2010	--	--	1.5	1.5
Revolving Credit Facility expiring 2013	1.25	--	--	--
Revolving Credit Facility expiring 2014	8.0	1.5	8.0	1.5
Total	**9.25**	**1.5**	**9.5**	**3.0**

Lehman Brothers Bankhaus AG London Branch bank is the Lender of the Revolving Credit Facility expiring 2014 with a commitment of 19 million euros and an amount disbursed of 3.6 million euros.

The bank s commitment under the Term Loan of 19.9 million euros, disbursed in full, was duly repaid on the loan s expiration date of January 28, 2010.

With regard to Lehman Brothers Bankhaus AG s commitment, Telecom Italia 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, entails changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc..

On July 14, 2010, a bilateral stand-by credit line was secured for 120 million euros for a period of 18 months (expiring January 13, 2012) from Banca Regionale Europea and has been completely drawn down.

On December 20, 2010, a revolving bilateral credit line was secured for 200 million euros for a period of 18 months (expiring June 19, 2012) from Unicredit S.p.A., drawn down for 120 million euros.

Maturities of financial liabilities

The average maturity of non-current financial liabilities is 7.28 years.

For details of the maturities of financial liabilities in terms of expected nominal repayment amount, as contractually agreed, reference should be made to the Notes Net financial debt and Financial Risk Management in the Telecom Italia S.p.A. financial statements at December 31, 2010.

Financial assets

Financial assets total 6,624 million euros (8,350 million euros at December 31, 2009) of which 665 million euros refers to financial receivables from Group companies.

Moreover, 4,525 million euros (6,290 million euros at December 31, 2009) are classified as current financial assets. This level of current assets, together with unused committed credit lines of 7.8 billion euros, allows the Company to amply meet its repayment obligations.

EQUITY

Equity is 25,564 million euros, increasing 2,496 million euros compared to December 31, 2009 (23,068 million euros). The changes in equity during 2010 and 2009 are reported in the following table:

(millions of euros)	**2010**	**2009**
At the beginning of the year	23,068	22,868
Bond conversions, equity instruments granted and purchase of treasury shares	*20*	*(7)*
Profit for the year		

	3,513	*1,399*
Dividends declared	*(1,035)*	*(1,035)*
Movements in the reserve for available-for-sale financial assets and cash flow hedges	*(2)*	*(157)*
At the end of the year	**25,564**	**23,068**

Financial Statements Telecom Italia S.p.A.

Separate Income Statements

Statements of Comprehensive Income

In accordance with IAS 1 (*Presentation of Financial Statements*), which came into effect on January 1, 2009, the following statements of comprehensive income include the profit for the year as shown in the separate income statements and all non-owner changes in equity.

Statements of Financial Position

Statements of Cash Flows

Additional Cash Flow Information

Reconciliation of Consolidated Equity

(millions of euros)	Profit for the year 2010	Profit for the year 2009	Equity at 12/31 2010	Equity at 12/31 2009
Equity and Profit for the year of Telecom Italia S.p.A.	**3,513**	**1,399**	**25,564**	

23,068
Equity and profit for the year of consolidated companies net of the share attributable of Non-controlling interests
1,274
(170)
19,026
18,641
Consolidation adjustments:

- elimination of carrying amount of the consolidated investments	(31,384)	(30,587)
- losses and impairment losses on consolidated companies included in the results of parent companies	519	486
	10,931	10,732
- elimination of goodwill recognized in Parent financial statements	(40,013)	(40,013)

- recognition of positive differences arising from purchase of investments	43,763	43,501		
- effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance	1	42	(121)	(136)
- valuation of investments using the equity method, net of dividends	99	67	123	101
-				

intragroup dividends

(2,645)

(229)

-

-

-

losses (gains) on disposals of investments

46

-

-

-

-

elimination of internal profits included in tangible and intangible assets

6

8

(26)

(33)

-

change in ownership percentage of consolidated companies during the year

-

-

-

(5)

-

derivatives

4

8

383

221

-

Sofora group (Argentina): revaluation to fair value of the 50% interest held before the business combination and effects arising from the business combination

278

-

230

-

-

other adjustments

26

(30)

343

462

Equity and Profit for the year attributable to owners of the Parent

3,121

1,581

28,819

25,952

Equity and Profit attributable to Non-controlling interests

451

15

3,791

1,168

Equity and Profit for the year in the consolidated financial

statements

3,572

1,596

32,610

27,120

Related Party Transactions

In accordance with art. 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning related party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, beginning December 1, 2010, the date of the coming into force of the above regulation, a statement is made to the effect that up to December 31, 2010 there were no significant transactions entered into as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a significant impact on the statement of financial position or on the results of the Telecom Italia Group and Telecom Italia S.p.A..

As for the period January to November 2010, no significant transactions were entered into with related parties, including intragroup transactions, either of a non-recurring or unusual and/or atypical nature.

Information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 are presented in the financial statements themselves and in the Note Related party transactions of the Telecom Italia Group consolidated financial statements and the Telecom Italia S.p.A. separate financial statements at December 31, 2010.

On November 4, 2010, the board of directors of Telecom Italia approved the procedure assuring the transparency and correctness of related party transactions pursuant to the aforementioned Consob Regulation 17221/2010. The procedure can be viewed on the corporate website www.telecomitalia.com under the Corporate menu in Governance.

Furthermore, a specific Group Steering Committee for Relations with Telefónica has been operational since the end of 2007. Its purpose, among other things, is to identify business areas and activities that could lead to possible industrial synergies between the two Groups and to devise the resulting plans to implement them. The internal working groups that have been set up for this purposes since 2008 have identified numerous areas of interest regarding:

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the achievement of synergies, strictly speaking, especially in the areas of procurement, IT, technology and research, in which the common factor would be the experience and expertise of each of the two parties, with consequent possible improvements;

.

the sharing of best practices in the areas of specific processes or company services, aimed at improving performance in the respective domestic markets.

The synergies achieved during the three years 2008-2010 are slightly higher than 1.3 billion euros, confirming the initial value assigned to the project (i.e. 1.3 billion euros) and announced to the market in March 2008. The quota of the synergies benefitting Telecom Italia are also confirmed at 55%.

Such collaboration will also continue during the next three years 2011-2013, with further synergies of a value comparable to that already achieved in the previous three years in part due to the ongoing extension of the activities now in progress and in part due to the launch of innovative services and the alignment of technological platforms.

The operational sphere of the initiative would exclude the operations of the two groups in Brazil and Argentina.

In view of its strategic nature, as well as having considered the circumstance that Telefónica is a related party of Telecom Italia, the Committee for Internal Control and Corporate Governance has been called upon to monitor the manner in which the project is implemented, in light of the specific rules of conduct.

Sustainability Section

Introduction

For 14 years, Telecom Italia has been publishing its sustainability report which illustrates the Group s performance in respect of stakeholders with whom the Company interacts on a daily basis: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders.

As of 2003, the data and information regarding sustainability became part of the Report on Operations for the consolidated Financial Statements, thus confirming the Group's intention to present its financial data together with its non-financial data.

References and Governance

The Telecom Italia Group is convinced that business activities should be conducted considering the expectations of stakeholders, in accordance with the principles established by internationally recognised standards. In defining and implementing sustainability strategies and programmes, the Group makes reference to the guidelines issued by the main international guidance and standardisation organisations on matters of Corporate Responsibility.

In 2002, Telecom Italia signed up to the Global Compact, the main international point of reference, which was launched in 2000 by the UN to promote environment protection, respect for human rights and working standards, and anti-corruption practices.

The Sustainability Management System also takes into consideration the main international regulations and standards:

.

European Commission Directives, Recommendations and Communications;

.

OECD guidelines for multinational companies;

.

ISO 9000 and ISO 14000 Quality and Environmental Management System certifications;

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Principles of the International Labor Organization (ILO) Conventions on respecting the fundamental rights of workers;

.

The Social AccountAbility 8000 standard (SA8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains;

.

AA1000 AccountAbility Principles Standard (APS 2008) drawn up by AccountAbility, an international organisation which promotes collaboration between stakeholders, and lays down standards and guidelines on matters of sustainability. The APS 2008 establishes the principles that a company must respect in order to define itself as responsible (accountable);

.

ISO26000 guidelines presented at the end of the year for private and public organisations of all sizes.

Sustainability issues are subject to the supervision of the Committee for Internal Control and Corporate Governance, which carries out a check on sustainability activities in general, including projects conducted by the Telecom Italia Foundation, to ensure they are consistent with the Group s ethical values.

Placement in the indexes

Sustainability indexes are stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The selection process is carried out by specialised agencies that assess companies on the basis of publicly available information or questionnaires, taking account of opinions expressed by the media and stakeholders. Inclusion in these indexes is of strategic importance to companies, both for the positive repercussions on their reputation and for the fact that, in addition to the pension funds and ethical funds, an ever increasing number of investors favour sustainable companies, considering them to be less risky and more promising in the medium to long term.

Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved. The suggestions of the rating agencies at the end of the process are taken into consideration when planning improvement actions in the future.

Telecom Italia has been confirmed in both categories of the Dow Jones Sustainability indexes:

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the Dow Jones Sustainability World Indexes (DJSI World), which include 318 companies;

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the Dow Jones Sustainability Europe index (DJSI Europe), consisting of 157 companies at European level, and the respective Eurozone index, consisting of 94 companies in the Euro area.

On the basis of the assessments carried out for admission to the DJSI, Telecom Italia has been included in the Gold Class for the fixed telecommunications sector of the Sustainability Yearbook 2010 , published by the SAM (Sustainable Asset Management) Group, the rating agency that manages the DJSI, and PricewaterhouseCoopers.

The Sustainability Yearbook only accepts companies with the highest sustainability scores and divides them into three categories: Gold Class, Silver Class and Bronze Class. The fixed telecommunications sector in particular consists of a group of 54 companies, while the Gold Class consists of the 4 companies in the sector with the highest score.

Telecom Italia has been included in all the important indexes of the Financial Times Stock Exchange for Good (FTSE4Good):

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FTSE4Good Global (657 companies);

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FTSE4Good Europe (273 companies);

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FTSE4Good Environmental Leaders Europe, which includes 40 stocks from the FTSE4Good Europe on the basis of the results achieved on matters of environmental protection.

Telecom Italia is also included in the following indexes:

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Advanced Sustainable Performance Index (ASPI) Eurozone, made up of 120 companies;

.

Ethibel Sustainability Indexes (ESI):

- Excellence Europe, consisting of 199 stocks;

- Excellence Euro, consisting of 114 stocks;

- Excellence Global, consisting of 129 stocks.

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MSCI ESG Indexes:

- MSCI WORLD ESG INDEX, consisting of 786 components;

- MSCI WORLD formerly USA ESG INDEX, consisting of 482 components;

- MSCI EAFE ESG INDEX, consisting of 439 components;

- MSCI EUROPE ESG INDEX, consisting of 226 components;

.

ECPI Indexes:

- ECPI Ethical Index Global, consisting of 300 stocks;

- ECPI Ethical Index Euro, consisting of 150 stocks;

- ECPI Ethical Index EMU, consisting of 150 stocks.

- ECPI EMU ESG Equity, consisting of 300 stocks;

.

FTSE ECPI Italian SRI Benchmark Index, consisting of 46 stocks.

.

Axia

- Ethical Index, consisting of 40 components;

- Euro Ethical Index, consisting of 80 components;

- CSR Index, consisting of 80 components.

Tim Participações, the listed holding company of the Tim Brasil Group, has had its position confirmed in the ISE (Índice de Sustentabilidade Empresarial) index, managed by BM&F Bovespa (the São Paolo stock exchange) together with the Brazilian Environment Ministry and other financial sustainability organisations. The index consists of 38 companies that have obtained the highest scores in terms of sustainability, selected on the basis of a questionnaire submitted to the 182 most traded companies in the BM&F Bovespa.

Other acknowledgements

In the context of the Alliance between the European Commission and companies launched on March 22, 2006 with the aim of turning Europe into a centre of excellence in CSR, various "laboratories" have been set up. These are working groups involving representatives of the companies and stakeholders with the support of the European Commission and aimed at exploring and developing shared operational solutions to achieve measurable progress in the priority areas of the Alliance, which include improving the quality of reporting processes.

In this respect, the "Sustainability and non-financial performance evaluation" laboratory has been set up, of which Telecom Italia is a co-leader, and has designed an advanced communication model for non-financial communication that meets the requirements of investors and other stakeholders. In order to stimulate dialogue on the subject, a widespread consultation process was launched involving focus group meetings in Italy (Rome and Milan) and abroad (Frankfurt, Paris, Stockholm, Utrecht), involving companies, investors, academics, representatives of the European Commission and stakeholders. Considering the opinions expressed, a model was drawn up based on six priority areas (Human Capital, Customer Relations, Community, Innovation, Environment and Corporate Governance) in which companies and investors are both interested, and in respect of which, therefore, the high quality reporting of financial information by companies is valued by the financial markets and taken into consideration for the purpose of valuations.

The results of the laboratory were presented on May 7, 2010 during the Senior Leaders Summit organised in Brussels by EABIS (European Academy of Business in Society).

Reporting

Scope

The sustainability report covers the subsidiary companies included in the consolidation scope, unless otherwise stated (see § The Environment and § The Community), excluding discontinued operations and non-current assets held for sale. With regard to the Argentina Business Unit, which has been consolidated in the Financial Statements of Telecom Italia since October 13, 2010, while waiting to align the indicators used to measure the sustainability performance and to check the underlying processes, the data has not been included in this Sustainability Report, with the exception of data regarding the number of employees and changes in this number (§ Human Resources/Headcount and changes).

Criteria

In accordance with the triple bottom line(3) approach, the company's economic and financial data has to be analysed and represented together with the environmental and social results. Only an overall analysis of company performance including all three dimensions can provide stakeholders with comprehensive information and allow interests to be balanced in a way that guarantees the success and survival of the company in the medium and long term. For this reason, the Group has integrated the sustainability data in the Consolidated Financial Statements since the 2003 financial year, in fact preceding the application of European Directive 51/2003, which was transposed in Italy by Legislative Decree No. 32 of February 2, 2007.

The Sustainability Report is based on a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is drawn up on the basis of a system of around 200 Key Performance Indicators (KPIs) relating to all the areas in which the Company has a major impact and measuring its capacity to respond as well as the degree to which it has achieved the established objectives. The KPIs are defined on the basis of:

- the analysis of the Global Reporting Initiative (GRI), an international organisation which has developed universally applicable guidelines for drawing up the sustainability report, in order to facilitate comparisons between companies;
- the demands of stakeholders;
- the questionnaires sent out by the leading rating agencies for the purpose of admission to the stock market sustainability indexes;
- the experience gathered over the 14 years during which the Company has performed this activity.

The KPIs are managed on the CPM system, a dedicated application, in a similar way to the way in which financial reports are drawn up.

The Sustainability Report is based on the AA1000 AccountAbility Principles Standard (APS) 2008, adopted as of the 2009 Sustainability report, and set out below:

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inclusivity: identification of the stakeholders and their expectations, and the development of strategies of involvement aimed at improving the Company s sustainability performance;

.

materiality: identification of the important issues for the organisation and its stakeholders;

.

responsiveness: a description of the initiatives carried out by the Company to meet the expectations of the stakeholders.

The Telecom Italia report's compliance with the AA1000 standard is verified by the auditing company Price WaterhouseCoopers.

Economic value generated and distributed

The economic value generated and distributed to stakeholders is shown below[4]. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

TELECOM ITALIA GROUP ADDED VALUE GENERATED AND DISTRIBUTED

(million euros)

2010

	2009	
Direct economic value generated		
a) Total revenue and operating income	27,826	27,174
b) Interest payable and dividends paid	117	104
c) Capital grains (capital losses) from disposals on non-current activities	11	(59)
d) Direct economic value generated (a+b+c)	**27,954**	**27,219**

Economic value distributed		
e) Operating costs	12,204	11,929
f) Employee costs	4,021	3,734
g) Shareholders and providers of capital	3,207	3,183
c) Taxes and duties	1,446	1,277
i) Economic value distributed (e+f+g+h)	**20,878**	**20,123**
Economic value retained (d-i)	**7,076**	**7,096**

(million euros)	2010	2009
Wages and salaries	2,615	2,570
Social security costs	931	942
Provisions for employees severance and retirement	52	54
Other expenses	423	168
Employee costs	**4,021**	**3,734**

(million euros)	**2010**	**2009**
Acquisition of external goods and services	11,383	11,480
Other operating costs(*)	1,233	949
Change in inventories	135	15
Internally generated assets	(547)	(515)
Operating costs	**12,204**	**11,929**

(*)

Mainly includes write-downs and charges connected to the management of non-financial credits for 478 million euros (565 million euros in 2009), accruals for risks equal to 75 million euros (164 million euros in 2009), and contributions and fees for the tlc activities for 484 million euros (318 million euros in 2009) net of Indirect taxes and duties of 188 million euros (125 million euros in 2009) included in the item Taxes and duties .

(million euros)	**2010**	**2009**
Dividends distributed	1,064	1,053
Interest payable	2,143	2,130
Shareholders and providers of capital	**3,207**	**3,183**

(million euros)	**2010**	**2009**

Income taxes	1,258	1,152
Indirect taxes and duties	188	125
Taxes and duties	**1,446**	**1,277**
regarding Italian activities	1,229	1,232
regarding activities abroad	217	45

Customers

Customer satisfaction

Telecom Italia listens to its customers through a system that encompasses both an overall assessment of all contacts with Telecom Italia over time, and a specific evaluation of the most recent contacts (for example, the activation of an ADSL line, a request for information or the reporting of poor service). The contributions gathered are used to improve the organisational procedures with the aim of supplying a service that is ever more responsive to customers' needs.

The company carries out two kinds of Customer Satisfaction surveys:

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the **reflective survey** is based on the customers' overall perceptions and is not connected to a specific event. This method permits the analysis of the cause and effect relationships that determine the customer s level of satisfaction. The CSI (Customer Satisfaction Index) is calculated on the basis of telephone surveys conducted by specialised agencies through a specific questionnaire. This survey, similar to the one used for the ACSI (American Customer Satisfaction Index), furnishes important suggestions about the levers that can be employed to improve the levels of customer satisfaction. The "reflective" survey covers all customer segments, namely consumer, business and top client;

.

the **reactive survey** is conducted immediately after the specific event under inquiry (for example, contact with the Call Centre). Those interviewed are asked, with the experience of the call still fresh in their minds, to provide an overall assessment of the service received (overall satisfaction) and an assessment of the individual aspects of the experience (for example, the time waiting to speak to an operator, courtesy and the ability to understand and satisfy the requests).

The data below refers to the last three months of the year and shows the overall CSI of Telecom Italia S.p.A. (the last six months for Top Clients).

Customer segment	**2010**	**2009**

Consumer	70.92	69.86
Business	64.43	63.42
Top Clients (TC e PS(*))	69.97	70.30
Total	69.39	68.60

(*) The CSI survey for the TOP segment in 2010 has been organized with reference to new TOP Clients (TC) and Public Sector (PS) segments.

The information presented in this table refers to the average annual value revealed by the reflective survey on other indicators for Telecom Italia S.p.A.

Customer segment	**Satisfaction with access service(*)**	**Satisfaction with billing(*)**

	2010	2009	2010	2009
Fixed telephony				
Consumer	8.19	8.18	7.30	7.27
Business	7.86	7.80	6.83	6.73

Customer segment	**Satisfaction with network coverage(*)**		**Satisfaction with billing(*)**	
	2010	**2009**	**2010**	**2009**
Mobile telephony				
Consumer	8.41	8.36	8.03	7.79
Business	8.14			

8.15

6.85

6.83

(*) Average satisfaction on a scale of 1-10, where 1 means not at all satisfied and 10 means completely satisfied .

The information in the following table refers to the annual average value of customer satisfaction with customer care, revealed by the reactive survey for Telecom Italia S.p.A.

Type of customer

CUSTOMER CARE

Overall satisfaction(*)

Courtesy and kindness (*)

Ability to understand and satisfy needs and requests(*)

2010

2009

2010

2009

2010

2009

Consumer

187

Fixed telephony(1)

7.39

7.19

8.73

8.47

8.31

8.01

119

Mobile telephony(2)

8.33

7.81

9.19

8.81

8.90

8.46

Business

191

Fixed(3)

6.72

6.39

8.39

8.14

7.83

7.47

Mobile(3)

6.47

6.67

8.30

8.27

7.60

7.49

(*)

Average satisfaction on a scale of 1-10, where 1 means not at all satisfied and 10 means completely satisfied .

(1)

Assistance provided by the 187 Service for information, commercial and administrative requests, reminders and complaints (excluding calls regarding faults, under specific inquiry).

(2)

Assistance provided by the 119 Service for information, changes and complaints.

(3)

Since April 2010, caring for fixed and mobile Business customers has been integrated. With the new platform, Business customers receive assistance through the 191 service for needs relating to both fixed telephony (information, commercial and administrative requests, reminders and complaints - excluding calls regarding faults), and mobile telephony (information, changes and complaints).

Customer satisfaction within the managerial incentives scheme

Telecom Italia s short-term management incentives scheme also provides targets, applicable to all resources within the scheme, linked to customer satisfaction, in line with the Industrial Plan for the period. The targets are measured by indicators calculated through periodic "reflective" surveys: the overall CSI for the Company and specific customer satisfaction indexes per customer segment.

Further targets on quality parameters measured by "reactive" surveys (commercial and technical front-end) are planned for particularly critical processes and activities.

Customer satisfaction within collective incentives schemes

Telecom Italia s collective incentives schemes also envisage an objective linked to customer satisfaction. In particular, the performance-related pay award, for employees not affected by an individual incentives system, incorporates both a total customer satisfaction target across the whole company, and specific targets for those parts of the organisational structure responsible for different customer categories.

Suppliers

General comments

The selection, assessment and control process of Telecom Italia Group s suppliers, for high risk purchasing categories, involves a pre-contractual qualification stage in which the economic/financial and technical/organisational characteristics are assessed. Verification of these characteristics leads to inclusion in the register of suppliers. Each one of the Group's suppliers must make a commitment, for itself and its authorised sub-contractors, associates and employees, to observe the principles of ethics and conduct contained in the Group s Code of Ethics.

Registered companies that have received purchase orders normally undergo checks throughout the course of the supply, which range from Vendor Rating monitoring (systematic assessment of the supply) to Incoming Quality control (mandatory for acceptance and use of the goods acquired).

Main sustainability initiatives

The Purchasing Department is split into specific divisions in order to respond as efficiently as possible to the requirements of internal customers and external stakeholders. These expectations are constantly monitored through surveys of both internal customers and suppliers in order to check the quality of the services delivered (see § Main involvement initiatives).

The main initiatives implemented in 2010 are as follows:

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continued application of the Product Life Cycle Evaluation Guidelines (issued in 2007) on a sample of 46 products. These guidelines allow the assessment, through an eco-compatibility index, of how far the acquired goods that are managed or marketed by the Group meet the prerequisites of the key environmental regulations, and that they are designed, produced, used and discarded in such a way as to facilitate the management of the entire life cycle, from the environmental and economic point of view.

The verification is carried out on a self-certification basis, using an appropriate questionnaire accompanied by supporting documentation. Subsequent sample checks are carried out on the most significant elements;

.

with the aim of promoting better application of the sustainability criteria to the whole supply chain, the annual social and environmental sustainability campaign was carried out on a sample of 50 suppliers. This assessment aims to verify compliance with the principles set out in the Telecom Italia Code of Ethics regarding social and environmental sustainability, respect for the principles of ethical conduct in business, the adoption of procedures to ensure the health, safety and rights of workers and the protection of the environment. The checks were based on suppliers' self-certification using an appropriate questionnaire accompanied by supporting documentation. Subsequent sample checks are carried out on the most significant elements emerging from the questionnaires;

.

following the signing of a Memorandum of Understanding (MOU) with France Telecom and Deutsche Telekom, at the end of 2009, Corporate Social Responsibility (CSR) verification activities began during the year in respect of the suppliers and sub-suppliers common to all three operators.

This agreement set up a common auditing method aimed at verifying and improving the social, ethical and environmental performance of production plants in Asia.

The audits were carried out by accredited international companies selected by tender and produced a report for each verified supplier, which was used to determine appropriate improvement actions, the implementation of which was subsequently monitored on a continuous basis by the signatories to the agreement.

Main involvement initiatives

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For the fourth consecutive year, the Group s main suppliers have been involved in satisfaction surveys regarding the Purchasing Department and, more generally, Telecom Italia. The online questionnaire, consisting of 27 questions, was active for two weeks and the analysis involved 1,010 suppliers with access to the Portal. 48.7% of suppliers responded, which was a significant increase on 2009 (32%).

The total average result of the 492 questionnaires completed was 73/100, an improvement on the result for the previous year (72/100).

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A new e-community was set up with suppliers in the Civil Infrastructure sector, with the aim of improving communication with and between suppliers, particularly on social and environmental sustainability matters.

This e-community is additional to the one set up for suppliers in the network operations sector, which has been running since 2008.

Institutions

Relations with central national institutions

Relations are primarily conducted with the parliamentary members of the Camera (Chamber of Deputies) and the Senato (Senate) Committees concerned with issues that could impact on the company such as, for example, those of an economic-financial nature or concerning privacy, telecommunications, Internet and television. Involvement in parliamentary hearings is also a way of examining specific issues in detail and creating opportunities for discussion about matters being debated in Parliament.

The TI monitoring of law-making activity of central national institutions often leads to proposals of amendments to measures under examination.

Moreover, Telecom Italia provides information to Ministries (mainly the Ministry for Economic Development) concerning the activities of the inspection body (parliamentary questions) directed at the Group.

During the year, Telecom Italia carefully monitored the legislative process of the so-called "Incentives Decree", converted into Law No. 73 of May 22, 2010, in the context of which provisions were approved in order to simplify administrative procedures relating to the creation of fixed and mobile networks, with specific reference to regulations regarding micro-trench excavations and UMTS site installation activities. Again for the purpose of simplification, provisions were implemented, in the framework of Presidential Decree No. 139 of July 9, 2010 (regulation on simplifying landscaping authorisations for small scale projects), to streamline the authorisations required for the installation of specific types of mobile and fixed equipment on pylons.

Telecom Italia also monitored the process relating to the privacy rules, which included the establishment and management of the public Register of subscribers who object to their telephone number being used for sales or commercial promotion purposes (Presidential Decree No. 178 of September 7, 2010). The establishment of this Register introduces the opt-out system in the field of telemarketing in Italy. This system means that individuals whose names appear in public lists of subscribers may only be contacted by telephone for commercial purposes if they have not explicitly exercised their right to object by registering their name in the appropriate public Register.

In the context of the legislative process of the 2011 stability law (law no. 220 of December 13, 2010), Telecom Italia particularly monitored the provisions regarding procedures for allocation of the rights of use for television frequencies.

Finally, on the occasion of the parliamentary hearing held in the Chamber of Deputies on October 19, 2010, Telecom Italia s top management had an opportunity to submit details of its 2010-2012 Business Plan.

Furthermore, TI Media maintains a dialogue with institutions on issues of interest to the company. Interaction with the Ministry of Economic Development's Communications Department continued in respect of the digitisation process, which this year involved eastern Piemonte, Lombardia, Emilia Romagna, Veneto and Friuli Venezia Giulia, according to the ministerial calendar of September 10, 2008 and subsequent amendments.

The Communications Department set up a specific task force for the digital switchover in these areas, which also includes TI Media.

Relations with local institutions

At local level, Telecom Italia maintains a constant dialogue with institutions on subjects of a general nature regarding the electronic communications sector and issues of interest to the company s business, in order to deal with the problems encountered and promote the Group s image. The dialogue takes place both directly with local authorities and with their representative associations: ANCI (National Association of Italian Municipalities) and UPO (Union of Italian Provinces).

Monitoring and constant interaction with the decision-making centres of local institutions take place by means of hearings and involvement in workshops as well as in the work of regional Commissions and ministerial and specialist work groups. Furthermore, Telecom Italia frequently organises communication initiatives on specific issues of local interest.

Coordination with the company departments operating at local level is fundamental for the purpose of acquiring information regarding the approaches and expectations of local institutions and providing suitable solutions.

The main subjects of dialogue with local authorities during 2010 included:

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local coverage and reduction of the digital divide;

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the creation of a broadband infrastructure involving the signing of memoranda of understanding with UPI and ANCI;

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the removal of public telephone equipment (telephone booths) which also involved public consultation as part of a procedure agreed with AGCOM;

.

the signing of various memoranda of understanding with central institutions, local authorities and their representative associations (e.g. ANCI) on the subject of Smart Services.

Relations with European and international institutions

Relations with European and international institutions are also collaborative in nature and are broadly carried out according to the logic previously described with, in many cases, the involvement of the other ICT operators. The actions carried out are both of an institutional nature (for example, participation in public consultations, workshops, meetings of parliamentary Commissions) and of a collaborative nature (meetings with the EU Commission) by means of individual actions and/or with the involvement of other operators. The issues tackled at European level, which are the subject of the main legislative/regulatory documents of interest to the Group, include Communication on the Digital Agenda, the Broadband Strategy, the Recommendation on regulated access to Next Generation Networks (NGN), the proposed Decision on the Radio Spectrum Policy Programme, the public consultation on net neutrality, the review of the Framework Directive on data protection, the review of the Roaming Regulation, the consultation on the review of the Universal Service.

As regards relations with the UN, the activities carried out as part of the Global Compact are of particular importance, taking the form of participation in the working group on human rights and in the activities of the Italian Network. Telecom Italia, Telecom Italia Media, and Tim Brasil, the three companies of the Group which adhered to the Global Compact, compile the Communication on Progress annually, the document in which the progress achieved in the promotion and actual application of the Global Compact s ten principles.

Competitors

Relations with stakeholders

Telecom Italia manages relations with associations and coordinates representation activities with Confindustria and its member associations.

The initiatives at national and local level consist of actions and meetings about business development and protecting the company s interests in the fields of economics, regulations, trade unions and labour. These initiatives are based on dialogue and on comparing the respective positions in order to identify, where possible, a common position for the sector to be represented in national and Community institutions.

The Group is a member of 100 local associations, including Confindustria Innovative and Technological Services, Asstel and Assoelettrica. In 2010, Telecom Italia joined Assinform, the national association of leading Information Technology companies operating in the Italian market, which acts as a link between the main economic, political and institutional forces of the country for the development of Italy as a National System through the use of innovation and new technologies.

Together with the other operators, Telecom Italia takes part in the Ugo Bordoni Foundation (FUB), which aims to carry out research and studies in the field of communication and IT in order to promote scientific progress and technological innovation. The Foundation, which is under Public Administration management and control, provides advice to Parliament, the Government and independent administrative Authorities.

Telecom Italia is also involved in the Audiovisual and ICT District, a Consortium of around 60 businesses operating in the IT, Tlc and media sectors. Sponsored by the Municipality of Rome, the Union of Industrialists and the Rome Chamber of Commerce, the objective of the District is to express and represent, within its field, the industrial activities and services which operate in the new economic area, alternatively known as major convergence or multimedia.

Telecom Italia and TI Media are founding members of the HD Forum, which pursues the objective of promoting and disseminating high definition technology in Italy. Membership of the Forum provides constant updates about the activities of competitors in the high definition field (in particular, Sky, Mediaset and Fastweb) and favours initiatives regarding regulations and standardisation.

TI Media, as a member of the Presiding Committee, is a member of the Radio and Television Federation, which brings together 150 local TV and radio stations and is a member of DGTVì together with Rai, Mediaset, D-Free and the Aeranti-Corallo and FRT local television associations. Within DGTVì there is a task force set up for the regions which, based on the ministerial calendar, are dealing with the analogue to digital TV switchover (in 2010, western Piedmont, Lombardy, Emilia Romagna, Veneto and Friuli Venezia Giulia). A representative of TI Media is a member of the Board of Directors of DGTVì.

Telecom Italia Media is a partner in Auditel, in which it holds a 3.33% shareholding, and has a representative on the Board of Directors and another in the Technical Committee. Auditel is the only body recognised in Italy for the collection of audience figures. It is recognised also by advertisers who assess the value of advertising slots on individual television channels on the basis of the data recorded by Auditel.

TI Media participates in the work of the CNID (Italian National Digital Committee), which brings together all the representatives of the digital market value chain and is chaired by the deputy Minister for Economic Development with responsibility for Communications, backed up by two deputy chairmen (an AGCOM Commissioner and the Chairman of DGTVì). The Committee acts through four different operational groups covering the following individual areas: Networks Technology and Development; Monitoring and Data; Communications and Customer Assistance; Specific Problems in the Public Broadcasting Service.

In 2003, TI Media and MTV subscribed to the Self-regulation Code for TV and Minors, as part of which the TV and Minors Committee was established with responsibility for monitoring fulfilment of the undertakings given under the Code. TI Media has been elected as the broadcasters representative and therefore has a privileged position as observer with regard to the institutions for the purpose of maintaining a constructive dialogue with the sector.

Services to OLOs

The National Wholesale Service (NWS) division of Telecom Italia is the point of reference for other licensed operators (OLOs) in the provision of network infrastructure and/or services for subsequent marketing by the said OLOs of electronic communication services to their own end customers. NWS takes care of the planning, provision, contract negotiation, sales, assistance and invoicing of the products/services provided. The organisational and administrative separation between the Retail Departments of Telecom Italia and NWS, which is certified once a year by an external body, ensures respect for the principles of equal treatment and non-discrimination established by current regulations and particularly by resolution 152/02/CONS.

NWS is the organisational structure set up to respond to the commercial requirements of other license-holding operators and draws up and puts forward an offer for the various wholesale markets on an annual basis. The approval process for each offer involves joint examination and reviews designed to provide the clarifications requested by AGCOM, which approves its contents and monitors the work carried out by NWS to ensure that competition is protected. AGCOM is also the guarantor and the reference authority in any cases brought by the OLOs and the end users on regulatory matters.

With a view to improving its company processes, Telecom Italia has presented a series of Commitments designed to enhance performance in the delivery of services to the OLOs which, following Procedure 351/08/CONS, were approved by AGCOM and came into force on January 1, 2009.

The Environment

Environmental performance

The information regarding environmental performance has been drawn from management data. In accordance with the principle of materiality, only subsidiaries included in the consolidated accounts that have revenue greater than 300,000 Euro and more than 40 employees, excluding discontinued companies and non-current assets held for sale, have been considered.

The environmental performance data given below covers energy, atmospheric emissions, water, paper, waste and electromagnetic emissions.

Energy

The energy consumption of Telecom Italia S.p.A. and the Group is presented according to the template proposed by the Global Reporting Initiative (GRI) in its Guidelines, version 3 (G3 Guidelines). The following table shows the direct consumption for heating and transport (ref. Scope1 according to the Greenhouse Gas Protocol) followed by the indirect ones for the purchase and use of electricity (Scope2).

The tables in the Environment chapter referring to the Telecom Italia Group show data broken down according to the following activities:

.

Domestic: telecommunication services and infrastructure and other associated activities carried out in Italy

.

Brazil: services and activities provided by Tim Brasil

.

Media: activities of the Media Group

.

Olivetti: activities of the Olivetti Group

HEATING SYSTEMS					
		% Changes			
	Telecom Italia S.p.A. 2010	**2010 vs 2009**	**2010 vs 2008**		
Energy generated by heating oil					

MJ

116,538,657

3.15%

(18.30%)

Energy generated by natural oil

MJ

436,186,064

(36.70%)

(36.28%)

Total energy for heating

MJ

552,724,721

(31.08%)

(33.18%)

HEATING SYSTEMS

	TI Group breakdown by Business Unit (%)				
	TI Group 2010	Domestic	Brazil	Media	Olivetti
Total energy for heating MJ	**651,831,799**	**90.84%**	**0.00%**	**0.49%**	**8.67%**

The data in the table relating to Telecom Italia S.p.A. show a significant reduction of consumption for heating purposes. The reason for this trend is essentially the activation in a number of Data Processing Centres (DPCs) of large co-generation plants that produce simultaneously electricity and heat, allowing the purchase of fossil fuels used to heat working environments to be significantly reduced. In Brazil, the climate makes it unnecessary to heat indoor premises.

VEHICLES

% Changes
Telecom Italia S.p.A. 2010
2010
vs 2009

				2010 vs 2009
Unleaded petrol consumption	l.	3,855,832	(27.73%)	(62.07%)
Diesel consumption	l.	17,953,949	1.56%	23.74%
Total energy consumption for vehicles(*)	MJ	**764,340,305**	**(4.71%)**	**(9.50%)**

(*)

Represents the conversion into MegaJoules of the consumption of unleaded petrol and diesel expressed in litres.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

	% Changes
Telecom Italia S.p.A. 2010	
2010	
vs 2009	
2010	
vs 2008	

Total numer of company vehicles	no.	19,905	(5.52%)	(7.19%)
Number of low emission vehicles(*)	no.	19,624	(5.59%)	(6.98%)
Total distance travelled	km	**320,016,025**	**3.67%**	**1.93%**

(*) Vehicles fuelled by unleaded petrol, eco-diesel, bludiesel, LPG (meeting the Euro4 standard or higher), electricity or other fuels with comparable or lower emissions.

At Telecom Italia S.p.A., the containment of energy consumption by vehicles and the increase in mileage recorded during the year demonstrate the increased efficiency of the vehicle fleet. The policy aimed at reducing the size of the fleet and modernising it in favour of vehicles that comply with stricter environmental standards is proceeding as planned: during 2010, 4,200 Euro3 standard vehicles were replaced with 3,000 Euro4 standard vehicles, including 350 petrol/LPG fuelled vehicles. The reduction in the number of vehicles also included 250 personally assigned vehicles.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED(*)

TI Group breakdown by Business Unit (%)

TI Group 2010

Domestic

Brazil

Media

Olivetti

Total number of vehicles

no.

21,405

94.27%

4.30%

0.43%

1.00%

Total energy consumed

MJ

839,687,957

92.51%

5.42%

0.85%

1.22%

Total distance travelled

km

344,128,481

94.33%

3.94%

0.73%

1.00%

(*)

The data shown in the tables and graphs relating to vehicles refer to all the Group's vehicles (industrial, commercial, used by executives/managers/sales engineers), both owned and hired. The vehicles, consumption and mileage of vehicles owned or in use by the sales force of Tim Participações have been included only where usage is significant and continuous. The significant reduction in energy used by vehicles, compared to the data published in the 2009 sustainability report, is attributable to Elettra Tlc S.p.A., which was responsible for the consumption of fuel for the ships used to lay submarine Tlc cables, being taken out of the consolidation scope.

Consumption of electricity for the operation of telecommunication and civil/industrial plants is reported below.

ELECTRICITY PROCURED AND PRODUCED

% Changes

		Telecom Italia S.p.A. 2010	2010 vs 2009	2010 vs 2008
Electricity from mixed sources(*)	kWh	2,023,676,446	(3.33%)	(3.33%)
Electricity from renewable sources	kWh	40,211,687	(6.39%)	8.04%
Total electricity				

kWh
2,063,888,133
(3.39%)
(3.13%)

(*)

Electricity purchased from mixed sources is equal to 1,960 GWh approximately. Self-produced electricity from mixed sources is equal to 63 GWh approximately, and is supplied by co-generation plants, which have allowed a saving on the purchase of electricity of more than 11GWh to be achieved, with an associated consumption equal to 16 million m^3 of natural gas. The production of electricity from continuous generators (not shown in the table) is estimated to be around 3 GWh.

ELECTRICITY PROCURED AND PRODUCED

TI Group breakdown by Business Unit (%)

	Total electricity
	kWh
TI Group 2010	**2,441,056,864**
Domestic	**86.39%**
Brazil	**11.76%**
Media	**1.12%**
Olivetti	**0.73%**

Despite increasing levels of voice and data traffic, energy saving and network efficiency improvement initiatives led to a reduction in overall electricity consumption of approximately 3%.

Previously launched initiatives aimed at optimising energy consumption continued in 2010. Rationalisation activities related primarily to:

.

upgrading air conditioning systems, physically segregating environments depending on their different air conditioning requirements, and increasing the average operating temperatures of telephone exchanges, servers and Radio Base Stations (RBS);

.

the targeted use of full free cooling5 technologies and other low environmental impact systems characterised by reduced energy consumption in cooling systems;

.

the adoption of more efficient technological solutions for servers installed in Data Centres, including the concentration and virtualisation of machines6;

.

measurement of energy consumption and remote control of central offices;

.

modernisation and maintenance of the efficiency of the fixed traditional switching network and the data networks;

.

modernisation of AC/DC conversion equipment through the introduction of technological solutions that guarantee better performance;

.

installation of time switches to turn off the lighting equipment;

.

sharing of technological sites thanks to co-siting agreements7, resulting in a saving of around 30% in energy consumption.

The following initiatives were completed or were under way in 2010 concerning the use of non-traditional or alternative energy sources and the testing of new technologies:

.

cogeneration/trigeneration: 4 large systems are in operation in four Data Centre sites (Pomezia, Rozzano, Padua and Bologna) and energy requirements are fulfilled by a trigeneration system (power generation, heating and cooling system) which, together with the traditional supply systems, allows energy savings estimated to be in the order 30%;

.

small scale cogeneration plants: fuelled by methane and producing 120 kWe of power. 5 systems are currently being completed to join the 12 systems already in operation to self-generate electricity and heat;

.

wind/photovoltaic power: in 5 RBS situated in areas characterised by unfavourable environmental and meteorological conditions, which were previously powered by diesel generators, a supplementary mixed wind and photovoltaic supply has been installed (3 to 6 kW wind power generator and 5 kWp photovoltaic panels) and similar systems are being installed in a further 8 RBS sites;

.

geo-cooling plants: the construction of two geo-cooling plants8 has been launched at two medium-sized industrial telecommunication exchanges, in order to provide air conditioning for the equipment rooms and replace the traditional refrigeration systems;

.

energy backup systems based on hydrogen fuel cells: a further 85 of these have been installed to replace the traditional lead battery systems, joining the 100 already installed in 2009. The introduction of this equipment has allowed the purchase and subsequent disposal of traditional batteries containing around 250 tonnes of lead to be avoided. Life cycle assessments show a benefit to the environment in terms of CO_2 not emitted of around 100 tonnes.

Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the Group consist almost exclusively of carbon dioxide and are due to the fossil fuels used for heating and the use of motor vehicles, the production or purchase of electricity and staff travel (home to work and back and business travel by air). In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFC and HFC) from air conditioning are also considered and converted into kg of CO_2equivalent.

As with the classification of power consumption, use is made of the Global Reporting Initiative - GRI Version 3 - guidelines, which refer to the definitions of the GHG Protocol 9 distinguishing between direct emissions (Scope1: use of fossil fuels for vehicles10, heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use(11)) and other indirect emissions (Scope3).

ATMOSPHERIC
EMISSIONS

% Changes

Telecom Italia S.p.A. 2010

2010

		2010	**vs 2009**	**vs 2008**
CO_2 emissions from vehicles	kg	43,723,046	(8.29%)	(12.28%)
CO_2 emissions from heating	kg	36,961,112	(30.32%)	(32.77%)
Equivalent CO_2 emissions from the dispersal of HCFC/HFC (*)	kg	26,820,860	(8.73%)	(34.09%)

CO_2 emissions from electricity generation by cogeneration	kg	24,010,060	130.44%	370.79%
CO_2 emissions from electricity generation using diesel	kg	2,670,955	(26.61%)	(26.60%)
Total of other indirect emissions of CO_2 - under Scope1 GRI	kg	**134,186,033**	**(6.92%)**	**(13.01%)**
CO_2 emissions from purchases of electricity generated by mixed sources	kg	789,849,200	(5.18%)	

				(5.75%)
Total of other indirect emissions of CO_2 - under Scope2 GRI	kg	**789,849,200**	**(5.18%)**	**(5.75%)**
CO_2 emissions from work-home commuting (**)	kg	59,925,224	(8.48%)	(12.38%)
CO_2 emissions from air travel (***)	kg	10,003,995	(15.62%)	(39.40%)
Total of other indirect emissions of CO_2 - under Scope3 GRI	kg	**69,929,219**	**(9.58%)**	

(17.64%)

Total CO_2 emissions

kg

993,964,452

(5.74%)

(7.73%)

(*)

Hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC), in terms of equivalent CO_2 emissions are determined by reference to specific Global Warming Potential (GWP) parameters for the two gases: the index is based on a relative scale that compares the gas considered with an equal mass of carbon dioxide with a GWP of 1. In 2010, the GWP of HCFC used was 1,780 and that of HFC was 1,300. A single parameter was used in 2009 and 2008.

(**)

In determining the impact of home-work commuting, reference is made to personnel statistics.

(***)

This year, air travel emissions were calculated more accurately based on the individual journeys actually made and the coefficients suggested by the GHG Protocol depending on the short or long term duration of each individual journey.

ATMOSPHERIC EMISSIONS

TI Group breakdown by Business Unit (%)		TI Group 2010	Domestic	Brazil	Media	Olivetti
Total CO_2 emissions under Scope1 GRI	kg	146,045,363	94.30%	2.16%	0.51%	3.03%
Totale emissioni di CO_2 under						

Scope2 GRI	kg	828,259,602	97.55%	0.86%	1.33%	0.26%
Totale of other CO_2 emissions under Scope3 GRI	kg	85,829,623	81.47%	18.53%	0.00%	0.00%
Total CO_2 emissions	kg	**1,060,134,588**	**95.79%**	**2.47%**	**1.11%**	**0.63%**

Atmospheric emissions by Telecom Italia S.p.A. are falling in overall terms, The following are a number of considerations on how individual items contributed to the achievement of the net result:

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reduction of emissions due to lower consumption by vehicles;

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reduction of emissions due to lower consumption for heating;

.

reduction of equivalent CO2 emissions, relating to the dispersal of HCFC and HFC used in air conditioning plants, due to the adoption of more meticulous methods for preventing leaks and the replacement of these gases with low environmental impact solutions;

.

an increase in emissions attributable to cogeneration, resulting from the company s decision to invest more in this technology, with financial and environmental benefits. The increase is in any case offset by the lower amount of power purchased from grid, which overall has led to a positive balance being achieved in terms of emissions;

.

reduction of emissions from diesel electricity generators in situations where the electricity distribution network is unavailable;

.

reduction of emissions due to purchased electricity;

.

reduction of the impact from home-work commuting, associated with the total number of employees;

.

reduction of emissions from business travel by employees due to a reduction in the number of trips, resulting in particular from the greater use of video-conferencing.

Water

WATER
CONSUMPTION

			% Changes	
		Telecom Italia S.p.A. 2010	2010 vs 2009	2010 vs 2008
Consumption of water drawn from artesian wells	m^3	67,750	(20.50%)	(*)
Consumption of water provided by water supply companies				

	m^3	4,341,947	(0.65%)	(4.42%)
Total water consumption	m^3	**4,409,697**	**(1.03%)**	**(**)**

(*) Data not gathered in 2008.

(**) Value not calculated since 2008 data on water drawn from artesian wells was not available.

WATER CONSUMPTION

TI Group breakdown by Business Unit (%)

		TI Group 2010	Domestic	Brazil	Media	Olivetti
Consumption of water drawn from artesian wells	m^3	1,193,306	6.07%	0.00%	0.01%	93.92%
Consumption of water provided by water supply companies	m^3					

4,671,366

95.49%

3.64%

0.49%

0.38%

Total water consumption

m^3

5,864,672

77.30%

2.90%

0.39%

19.41%

The total consumption of water by the Group reveals a significant impact by Olivetti due to water being drawn from artesian wells for industrial processes.

Paper

PAPER PURCHASED

			% Changes	
		Telecom Italia S.p.A. 2010	**2010 vs 2009**	**2010 vs 2008**
Paper for office use	kg	529,717	(16.96%)	(20.63%)
Paper for commercial use	kg	1,643,345	(18.61%)	(20.49%)

Total paper purchased

kg

2,173,062

(18.21%)

(20.53%)

Nel 2010 Telecom Italia ha continuato ad acquistare, per uso ufficio e per uso commerciale (bollette telefoniche), esclusivamente carta proveniente da foreste gestite secondo gli standard del Forest Stewardship Council (FSC)[(12)] e ne ha acquistato e utilizzato una quota significativamente inferiore.

PAPER FOR OFFICE USE

TI Group breakdown by Business Unit (%)

		TI Group 2010	Domestic	Brazil	Media	Olivetti
Non-recycled paper purchased	kg	2,178	65.43%	34.57%	0.00%	0.00%
Recycled paper purchased	kg	59,869				

0.00%

100.00%

0.00%

0.00%

FSC certified paper purchased

kg

584,323

95.43%

0.00%

2.45%

2.12%

Total paper purchased

kg

646,370

86.49%

9.38%

2.21%

1.92%

Waste

The data shown in the table refer to the quantity of waste consigned [13] and recorded by law[14].

WASTE CONSIGNED(*)

			% Changes	
		Telecom Italia S.p.A. 2010	**2010 vs 2009**	**2010 vs 2008**
Hazardous waste	kg	5,409,504	(13.70%)	

				5.65%
Non-hazardous waste	kg	11,049,385	(4,22%)	2,46%
Total quantity of waste	kg	**16,458,889**	**(7.56%)**	**3.48%**
Waste for recycling/recovery	kg	15,062,162	(6.97%)	6.78%
Ratio between the amount of waste recycled/recovered and the total waste	%	91.51%	0.64%	3.18%

(*) The data do not include telephone poles.

WASTE CONSIGNED

TI Group breakdown by Business Unit (%)

TI Group 2010

	Total waste consigned
	kg
	18,751,552
Domestic	**89.39%**
Brazil	**5.88%**
Media	**0.70%**
Olivetti	**4.03%**

As communicated in the previous report, a major campaign regarding hazardous waste was launched to replace lead batteries. During 2010, the data fell back to normal levels. Compared to the two previous periods, the ratio between waste produced and waste consigned for recycling/recovery has improved further.

Following the 2003 Framework Agreement for the management of decommissioned wooden telephone poles, with the favourable opinion of the Conference of State-Regions-Autonomous Provinces, signed with the Ministry of the Environment and the Ministry of Production Activities and the production and recovery companies, decommissioning activities continued in 2010 with the replacement of 143,570 poles.

Electromagnetic emissions

The actions of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

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the careful and proper management of its equipment during its entire life cycle, in compliance with current regulations and internal standards of efficiency and safety;

·

the deployment of, and constant research into, the latest technological instruments for checks and controls.

Systematic monitoring continues of the levels of electromagnetic emissions in the installations of LA7, MTV and Telecom Italia Media in order to guarantee that legal limits are respected and high safety standards are maintained. For the Telecom Italia Media Group in particular, such monitoring is related to electromagnetic field levels for protection of the population and the levels of exposure of workers.

Based on the controls carried out on Italian territory, electromagnetic emissions generated by LA7 and MTV individually are within the legal limits, with levels significantly lower in the case of digital broadcasting, which allows a reduction of the electromagnetic emissions of around 75% compared to traditional analogue broadcasting.

Similar attention is paid to the emissions from mobile handsets using the frequency bands operated by Telecom Italia: GSM 900Mhz, DCS 1800MHz and UMTS. In 2010, in line with the established targets, all the models of technologically innovative mobile phones widely distributed in Italy and carrying the TIM brand, and 25% of the models[15] distributed in Brazil and branded Tim Brasil were submitted for SAR qualification in Telecom Italia s laboratories where specific equipment and expertise to carry out such tests exist. As far as SAR assessment, Telecom Italia applies the ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines[16] and the relevant declarations of conformity. SAR qualification is carried out in a pre-commercialization (or product evaluation) phase, when the SAR value is not yet available from the manufacturer, and is therefore much more than a simple quality control.

The issue of electromagnetism and the possible effects on biological systems have been the subject in recent years of numerous studies and discussions involving the scientific community and public opinion. More details are available at www.telecomitalia.com.

The Community

The contribution to the Community

The contribution made to the Community by the Telecom Italia Group, calculated according to the London Benchmarking Group (LBG) guidelines, amounts to 33.4 million euro in 2010 (36.5 million euro in 2009), equal to 0.81% of the profit before tax.

The contribution has been calculated using management data partly based on estimates. In accordance with the principle of materiality, only subsidiary companies in the consolidated accounts with revenue greater than 300,000 euro and more than 40 employees have been considered, excluding Discontinued operations/Non-current assets held for sale.

More than 100 major international companies subscribe to the LBG, which was founded in 1994 and represents the global gold standard for the classification of voluntary contributions by companies in favour of the community.

In accordance with the LBG model, in order to measure and represent the Group's commitment to the community, the contributions disbursed have been subdivided into three categories (Charity, Investments in the community, Initiatives for the community), adopting the customary representation, which places initiatives of a charitable nature at the top and initiatives which in addition to being of benefit to the community are in the commercial interest of the company at the bottom:

The criteria used to assign the contributions to the various levels of the pyramid are set out below.

Charity

Intermittent support to a wide range of good causes in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.

Donations to national/international organisations not based on a specific medium/long term programme.

Sponsorship of causes or events, not part of a marketing strategy.

Company matching of employee giving and fund-raising,

Costs of supporting and promoting employee involvement.

Costs of facilitating giving by customers and suppliers.

Investments in the Community

Long-term strategic involvement of the company to address a limited range of social causes.

Memberships and subscriptions.

Grants and donations based on a specific medium/long term programme.

Initiatives in the Community

Activities usually carried out by commercial departments to support directly the success of the company, also in partnership with humanitarian organisations.

Sponsorship of events, publications and activities promoting brand or corporate identity.

Cause Related Marketing, promotional sales.

Support to scientific and University research and to humanitarian organisations.

Care for consumers with special needs.

Civil Protection activities.

Research and Development

Within Telecom Italia, research and development activities are carried out by Information Technology and TILab, both of which belong to the Technology and Operations Department, which oversees innovation by analysing new technologies and carrying out the engineering operations for Telecom Italia's services and network platforms, through 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. Activities to enhance and generate competitive advantage for Telecom Italia Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company s assets in patents rights. In 2010, 18 new applications for patents were filed.

Relevant stakeholders and issues

The relevant stakeholders for Research and Development are:

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areas of the company involved (e.g. Marketing and Purchasing);

.

suppliers, for the joint development of solutions in accordance with the technical requirements of Telecom Italia;

.

Research Centres and Universities for collaboration and joint projects (e.g. the National Research Centre for the Smart Inclusion project. In 2010, 23 new collaborative projects were begun with 12 Italian universities and 1 foreign one (Keio) (in addition to the 3 already under way at the beginning of 2010), covering research into new technologies, encryption algorithms, new services and new communication standards;

.

Standardisation Bodies (NGMN , OpenIPTV Forum, OMA, 3GPP , TISPAN, ETSI,) in which Telecom Italia is actively involved;

.

Public Administration by carrying activities in partnership;

.

Non-governmental associations for joint projects (e.g. the Zambia Project to install a Community Multimedia Centre in Africa to connect some educational and healthcare institutions with one another and the Internet);

.

International bodies such as the UN and UNESCO (e.g. organising study days and presenting action carried out by Telecom Italia in emergency situations).

The themes on which projects are developed are identified on the basis of the Three-Year Technological Plan, the reference document for the Telecom Group, which provides guidelines for the evolution of the network, platform and services.

The Plan is published once a year following a wide-ranging process of involvement of the corporate departments concerned.

The Technological Plan also identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and crossover technologies in other sectors that may be of interest to the Group.

Projects and initiatives in 2010

The themes identified can be arranged in 3 macro-strands:

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Information Technology to support business

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Services to reduce environmental impact

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Services for the community.

Information Technology to support business

Research and development activities in 2010 were carried out internally or contracted to outside suppliers and were directed towards the creation of:

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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:

.

development of a new Customer Centric platform, CRM Business, for the commercial management of the SOHO, SME, Enterprise and Top customers;

.

development of new Customer Centric "Single Convergent Billing to manage the billing of fixed/mobile services for Consumer customers;

.

development of a Customer Centric Integrated Data Warehouse to support the Fixed/Mobile convergence;

.

development of a new SINGLE SAP platform to integrate the previous versions relating to previous organisations;

.

development of IT platforms in support of the business departments for the implementation of new services for Consumer, Business & Top customers. In particular, activities were aimed at supporting the following offers: offerta famiglia; Friend & Family ; MTV (main functions); IPTV; Alice CASA (naked); Alice Total Security ; Alice DAT KIT (fixed-mobile upselling); Tim Affare Fatto al Lavoro ; Impresa Semplice ; Alice Affare Fatto on VoIP; A Business (naked).

Services to reduce environmental impact

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Next Generation Data Center: this project is aimed at developing the hardware infrastructure according to virtualisation principles, based on replacing the physical servers in the Telecom Italia Data Center by making shared use of infrastructure between the various applications. The project, which aims to develop commercial offers for the ICT market (e.g. ospit@ virtuale), allows logistical and energy optimisations to be achieved.

.

Next Generation WorkPlace: this is a personal computing evolution that allows centrally managed content and applications to be accessed remotely and in multichannel mode, creating highly "simplified" workstations that only contain the basic network information needed to communicate with the centralised infrastructure. In addition to contributing in a decisive way to reducing energy consumption, the project is aimed at improving the operational flexibility of employees, establishing the foundation for future development of work models (e.g. teleworking).

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ITS & Infomobility Platform: intended to enable new services for vehicles, their occupants, Public Administration and private citizens, by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.).

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Smart metering: these are solutions that allow energy consumption to be monitored and optimised, including TI-Green and Greenhome.

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Smart Town: the solution provides a package of services for municipalities by using the public lighting network.

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EARTH: this project studies network architectures and individual components of existing and above all future mobile systems with the aim of improving their energy efficiency by at least 50% compared to current standards.

.

Telepresence: development of a prototype for the telepresence service for business customers, the features of which guarantee a high standard of video quality (resolution up to full HD), visibility of the whole person, smoothness in the reproduction of movements and polyphonic audio with echo and background noise suppression. The prototype is distinguished by the use of low cost technologies such as HD webCAM, low cost plasma 50" TV, medium range PC and new low cost sound cards.

Services for the Community

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Solutions for reducing the geographical divide: they are intended to facilitate access to broadband in areas with digital divide problems and new urban areas.

.

Laboratorio Accreditato di Prova (LAP) [accredited test laboratory]: it operates within TILab and carries out testing activities on ICT services and systems. The LAP has been accredited since the 1990s as a provider of various services to the Ministry of Economic Development, SIT (Italian calibration service) and Accredia (the new national accreditation body) based on European Regulation EC 765/2008.

LAP works for internal Telecom Italia departments and for organisations and companies operating in the ICT sector, offering tests and services of various kinds, from hardware to operational aspects, fixed terminals to mobile ones, exchanges to optical systems. Interoperability with the Telecom Italia network is completely simulated in the laboratory.

.

Smart Inclusion: this project allows young long term hospital patients to participate in social life by connecting with their school and home via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures.

The technical solution has been created by Telecom Italia by using innovative technologies such as plastic fibre optics and power lines, as well as specific software developments, mainly based on open source platforms.

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E-learning and evolved teaching methods: a series of initiatives were launched during 2010 in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the active involvement of end users.

.

MyDoctor@home: remote healthcare based on monitoring the physiological parameters of the patient directly from home or in appropriately equipped premises. The measurements are carried out by combining technologies developed by Telecom Italia with standard commercially available medical electronic apparatus.

.

MuoviTI: this is an experimental remote monitoring application for people with movement difficulties, which allows healthcare personnel to monitor the amount of movement of patients remotely. The system uses sensors that can be worn by the patient, process the data on site and transmit the results to the Telecom Italia remote monitoring platform for them to be checked by authorised personnel (doctors, relatives). The application is based on the SPINE framework, an open source project developed with the academic world (Universities of Calabria and Berkeley and the University of Texas in Dallas). The testing of MuoviTi on a number of patients being treated in the rehabilitation department of the Novara University "Maggiore della Carità" Hospital began in 2010 with the assistance of the Mario Boella Institute.

Human Resources

Headcount and changes

Telecom Italia Group

The headcount of personnel as of December 31, 2010 was divided as follows:

(units)	**12.31.2010**	**12.31.2009**	**Changes**
Italy	57,994	60,829	(2,835)
Abroad	26,135	10,499	

	15,636		
Total personnel on payroll	**84,129**	**71,328**	**12,801**
Agency contract workers	71	56	15
Total personnel	**84,200**	**71,384**	**12,816**
Non-current assets held for sale	-	2,205	(2,205)
Total	**84,200**	**73,589**	**10,611**

Excluding personnel concerned with Non-current assets held for sale (HanseNet) and agency contract workers, the Group s workforce has increased by 12,801 units, compared to December 31, 2009.

The changes can be itemised as follows:

- exit from the consolidation scope of the company Elettra Tlc S.p.A. (120 units) and of the BBNED Group companies (308 units);
- entry into the consolidation scope of the Argentina Business Unit companies (15,562 units as of October 13, 2010);
- net turnover down by 2,333 units, as detailed below by individual Business Unit:

(units)	**Recruited**	**Departed**	**Net change**
Domestic	718	(3,438)	(2,720)
Brazil	3,221	(2,890)	

	331		
Argentina	295	(225)	70
Olivetti, Media and others	227	(241)	(14)
Turnover	**4,461**	**(6,794)**	**(2,333)**

Telecom Italia S.p.A.(*)

(units)	**12.31.2010**	**12.31.2009**	**Changes**

	Total personnel on payroll
	49,636
	54,236
	(4,600)

(*)

In 2010, as in 2009, there were no agency contract workers.

As of December 31, 2010, Telecom Italia S.p.A. had 49,636 employees on its payroll.

Compared to December 31, 2009, an overall reduction of 4,600 units was recorded, due to:

.

a balance of 2,129 units departing to join other Group companies, including 2,092 transferred to the company SSC (Shared Service Center S.r.l.) of the "IT Operations" branch;

.

net turnover down by 2,471 units, as detailed below:

(units)

	Recruited
	Departed
	Net change

Turnover of Telecom Italia S.p.A.
258
2,729
(2,471)

Tim Brasil group

(units)	**12.31.2010**	**12.31.2009**	**Changes**
Total personnel on payroll	**10,114**	**9,783**	**331**

The Tim Brasil group headcount as of December 31, 2010 was 10,114 units.

Compared to December 31, 2009, an increase of 331 units was recorded, due to:

.

a balance of 3 units departing to join other Group companies;

.

net turnover up by 334 units, as detailed below:

(units)	Recruited	Departed	Net change
Turnover at Tim Brasil Group	**3,220**	**2,886**	**334**

Argentina Business Unit

(units)	12.31.2010	12.31.2009	Changes

	Total personnel on payroll
	15,632
	-
	15,632

The headcount of the Argentina Business Unit, which was included in the consolidation scope of the Telecom Italia Group as of October 13, 2010, following an increase in the shareholding in Sofora, was 15,632 as of December 31, 2010.

Excluding agency contract workers, the number of personnel operating in Italy is equal to 69% of the Group total and can be broken down as follows:

The distribution of personnel by geographic area, and the recruitment carried out by the Group, excluding agency contract workers, are shown below:

The number of personnel operating in Tim Brasil Group is equal to 12% of the Group total and can be broken down as follows:

The number of personnel operating in the Argentina Business Unit is equal to 19% of the Group total and can be broken down as follows:

Gender balance

In 2010, the percentage of women holding senior management positions in the Group (in Italy) was approximately 15% and, in middle management, the proportion was 26%.

In 2010, the percentage of women holding senior management positions at Tim Brasil was approximately 12% and, in middle management, the proportion of the total was 25%.

At Tim Brasil, women employed by the Company rose from 3,263 in 2003 (54% of the total) to 5,726 in 2009 (58% of the total) and to 5,905 in 2010 (58% of the total).

People Caring

Over the years, the Telecom Italia Group has developed several programmes and initiatives to support its employees, to improve the quality of their working lives and also to support those outside the Company.

People Caring is the structure created by Telecom Italia to respond to the expectations of employees regarding certain important issues, identified through active listening carried out both on line (Intranet, community, email) and through meetings and focus groups. The main themes identified are:

- work-life balance;
- support for the needs of children and families in general;
- support for volunteering initiatives by employees;
- promoting the forms of diversity that exist in the workplace through diversity management activities and projects

Development

The purpose of the Development area is to identify the technical and managerial skills of employees, drawing up plans for their development and loyalty, with particular regard to talent. The instruments used for this purpose, which are devised with regard to national and international benchmarks, are described below.

Performance assessment

The New Performance Assessment System launched in 2009 and completed in April 2010 involved around 54,800 non-managerial employees of the Telecom Italia Group.

The uniformity of the assessment criteria used is ensured by appropriate Calibration Committees consisting of managers from the assessed employee's department and Human Resources.

The feedback interview between the manager and the employee is the key moment of the performance improvement process, in which strengths and areas for improvement are discussed and the individual's training and development are planned.

The result of the survey carried out among assessors showed that the system is particularly appreciated (total overall score of 3.52 on a scale of 1 to 4).

The application of the system confirmed its effectiveness based on the process dynamics. There was in fact a significant change in the assessments made in 2009 compared to 2008 - one assessed employee out of three received a different assessment to the previous year - indicating that an accurate assessment of performance over the period had been made.

The Performance Assessment at Tim Brasil involved 100% of eligible employees. The assessments made by managers are approved by a specific committee. The feedback between assessor and employee assessed was also regarded as an obligatory stage in concluding the assessment process.

Selection

An updated version of the Recruiting and Selection Policy has been issued for the Group's companies in Italy which recognises the value of each individual's diversity without discrimination based on gender, religion, ethnicity, opinion or ability. The Policy supports equal opportunities for men and women in the selection process. From 2010, the recruiting and selection service for professional positions has been entrusted to the company HR Services S.r.l.

Various forms of cooperation with the world of education and academia have been set up in Italy, including the presence of company representatives in Scientific Committees, company representatives providing tuition on training courses, scholarships being granted to young people, paid internships being provided in company offices, financial support being given for specific training plans.

Tim Brasil continued to prioritise the recruitment of staff who had already worked in the Company, applying processes, criteria and instruments aimed at ensuring equal opportunities and transparency.

Training

In 2010, Telecom Italia provided 1.2 million hours of training, as shown in the following table. 81.3% of Telecom Italia S.p.A. personnel, equal to 40,381 employees, participated in at least one training session.

At Tim Brasil, training involved 82% of employees and the average training per head was 40 hours.

Once again this year the focus was on monitoring technological skills and strengthening the skills required by Customer Care and Sales personnel.

Specific attention was paid to management training regarding innovation and decision-making, which involved dedicated meetings being held with international experts and management training school teachers.

ORGANISATIONAL FIELDS

TOTAL BY TRAINING TYPE (TELECOM ITALIA SPA)

TYPE OF TRAINING

HOURS

Participations (*) (no.)

Participants (no.)

Coverage (%)

Total hours (no.)

Hours per head (no.)

SPECIALIST TRAINING

1,099,680

22.2

148,819

34,561

69.6%

Senior Managers

2,205

2.8

242

158

20.1%

Middle Managers

26,873

7.7

2,515

1,549

44.6%

Office Staff/Workers

1,070,602

23.6

146,062

32,854

72.4%

MANAGEMENT TRAINING

46,555

0.9

4,169

2,654

5.3%

Senior Managers

14,582

18.6

1,663

589

74.9%

Middle Managers

5,896

1.7

577

448

12.9%

Office Staff/Workers

26,077

0.6

1,929

1,617

3.6%

INSTITUTIONAL TRAINING

22,230

0.4

12,356

12,108

24.4%

Senior Managers

951

1.2

608

587

74.7%

Middle Managers

3,887

1.1

2,151

2,090

60.2%

Office Staff/Workers

17,392

0.4

9,597

9,431

20.8%

TRAINING FOR NEWLY-HIRED EMPLOYEES

37,947

0.8

1,817

612

1.2%

Senior Managers

0

0.0

0

0

0.0%

Middle Managers

0

0.0

0

0

0.0%

Office Staff/Workers

37,947

0.8

1,817

612

1.3%

LANGUAGE TRAINING

35,280

0.7

1,628

1,532

3.1%

Senior Managers

6,617

8.4

203

171

21.8%

Middle Managers

9,404

2.7

485

454

13.1%

Office Staff/Workers

19,259

0.4

940

907

2.0%

TOTAL

1,241,692

25.0

168,789

40,381

81.3%

Senior Managers

24,355

31.0

2,716

740
94.1%
Middle Managers
46,060
13.3
5,728
2,834
81.6%
Office Staff/Workers
1,171,277
25.8
160,345
36,807
81.1%

(*)

Shows the overall number of participations in the various forms of training (classroom, on-the-job, online training).

Climate survey

The seventh corporate climate survey was carried after a two year interval. The survey involved the use of a questionnaire updated with the assistance of SDA Bocconi and made available online for a period of two weeks. New questions were added in order to find out and make the most of interactions within the company. The listening activities included interviews and focus groups aimed at identifying the reason behind the problems identified and taking prompt and concrete improvement action. The general satisfaction rate in Italy, on a scale of 1 to 10, was 7.23 (6.35 in the sixth survey) and at Tim Brasil in was 7.65 (7.36 in the sixth survey).

Internal communication

The internal communication events of 2010 were conducted for the purpose of involving the greatest possible number of employees and making them the driving force behind decisions connected with the business and with improving customer satisfaction. In February 2010, the "Let's talk about sustainability" event was held as the first opportunity for top managers and employees to meet and find out about Telecom Italia's approach and activities regarding sustainability, to encourage discussion on social, environmental and strategic issued for the company's business. The event was attended by over 5,500 employees by video streaming.

Health and Safety

In 2010, a number of specific projects and initiatives regarding health and safety at work were launched or pursued at Telecom Italia and Tim Brasil.

In accordance with current legislation, specific training courses were conducted on these matters for new recruits, people transferring to other jobs and/or following the introduction of new work equipment, technologies, apparatus or hazardous substances.

The process aimed at developing awareness of the role of manager in charge of the health and safety of workers was completed, while training courses were provided for all call centre operators on the noise-related risks linked to the use of headphones.

An e-learning course was implemented to inform and train employees on current legislation in this field, the main innovations introduced by Legislative Decree 81/08 and how it is applied within Telecom Italia.

During 2010, in order to fulfil the duties specified in Legislative Decree 81/2008, four new Risk Assessment Documents were drawn up regarding the health and safety of workers. These are connected to the documents, procedures and provisions concerning the health and safety of workers and available on the company intranet.

Accidents

The figures for accidents relating to Telecom Italia S.p.A. are shown below, presenting a comparison with the data for previous years.

	2010
	2009
	2008

Number of accidents (excluding travel)	
	873
	1,079
	932
Severity index(*)	
	0.20
	0.42
	0.45
Frequency rate(*)	
	10.91
	11.28
	9.77
Average duration in hours	
	136.44
	127.73
	127.31
Unproductivity index(*)	
	1.80

1.44

1.24

Accidents per 100 workers

1.70

1.97

1.63

(*) The severity, frequency and unproductivity indexes are respectively:

- the number of conventional working days lost in the year per thousand hours worked;

- the number of accidents per million hours worked;

- the number of hours lost due to accidents per thousand hours worked.

The number of accidents is slightly lower than the previous year. Of particular note is the fall in the severity index due to the absence of fatal accidents, compared to previous years, which is line with the objective set for this year.

Constant attention paid to verifying application of the risk control measures, the results of training programmes for telecommunication system operation and maintenance activities that require overhead work (on poles, ladders and pylons), "Safe Driving" course (which will continue in 2011), contributed to the achievement of this result.

The increase in the frequency and unproductivity indexes is due to the fall in the number of employees, while the increase in the average number of hours is due to the higher number and severity of accidents while travelling for work purposes, which rose from 182 in 2009 to 265 in 2010. Nevertheless these accidents don t come within the category of professional accidents, which are those connected with the work done for the Company, and are therefore difficult to control.

Industrial relations

On May 1, 2010, Telecom Italia S.p.A. transferred its line of business consisting of the "IT Operations" department, operating within the Technology & Operations/Information Technology Department, to Shared Service Center (SSC), a limited company fully controlled by Telecom Italia. The transfer of this department involved approximately 2,100 employees. As required by current legislation, these employees were placed under the collective labour agreement currently applied within Shared Service Center Srl and the employment contracts were transferred directly from Telecom Italia S.p.A. to Shared Service Center Srl.

The purpose of this operation is to allow Shared Service Center S.r.l. to provide IT services within the Telecom Italia Group, focusing exclusively on the delivery of services offered through an organization which, within the framework of requirements previously identified by Telecom Italia S.p.A., will provide end-to-end services that meet the highest market standards, in terms of quality and cost.

As part of the overall IT sector reorganisation process, the Company has therefore confirmed the strategic importance of IT activities and the respective professional assets with a view to maintaining them within the Group.

With regard to the Solidarity Contract applied to Directory Assistance workers between September 1, 2009 and August 31, 2010, in accordance with the Agreement of July 21, 2009, a verification meeting was held with the trade unions at Ministry offices in May. At this meeting, Telecom Italia illustrated the initial actions taken in an attempt to boosting directory assistance services and protect jobs.

Following the updating of Telecom Italia's 2012 Strategic Plan, which was also communicated to the financial community, in April 2010, in a series of dedicated meetings, the Company provided trade unions with details of the current telecommunication market and its development prospects, both technological and commercial.

At the end of this process, Telecom Italia also illustrated the organisational effects of the 2010-2012 Strategic Plan and the consequences on employment levels. As part of the discussions held with trade unions, the Company confirmed its willingness to find socially sustainable solutions to deal with the surplus personnel forecast by the Plan, as always done in the past.

In June 2010, Shared Service Center S.r.l. illustrated its 2010-2012 Business Plan to the trade unions. This plan identifies the guidelines needed to deal with the discontinuity in the relevant market, while at the same time recovering efficiency, competitiveness and the ability to innovate, ensuring an integrated view of Information Technology. During the same meeting, the Company illustrated two projects to trade unions for the reallocation of around 100 employees from Shared Service Center S.r.l. to Telecom Italia in order to minimise the occupational effects of the Plan.

On August 4, 2010, the complex and detailed negotiations between the social partners government, Telecom Italia and trade unions, were completed positively with the signing of a framework agreement to deal with the expected surplus of personnel at Telecom Italia S.p.A. and Shared Services Center S.r.l..

The willingness to search for dialogue between the parties guided the discussion and is tangibly demonstrated by the agreement reached.

The Agreement provides for recourse to mobility under Law 223/91, allowing workers to change jobs according to agreed criteria, and for Solidarity Contracts to be implemented together with strategic training as an essential tool for promoting professional retraining and re-skilling in order to avoid surplus of personnel.

Solidarity Contracts are agreements that provide for working hours to be reduced in order to avoid, partially or totally, downsizing or declaration of redundancy. For the workers to whom the contract will be applied, provision is made for INPS [social security] to make up part of the remuneration not received due to the reduction in working hours.

In summary, the agreement of August 4, 2010 provides for the following:

.

recourse to mobility pursuant to Law 223/91 for 3,900 employees of Telecom Italia S.p.A. (including 200 from the previous mobility procedure pursuant to the agreement of September 19, 2008);

.

Solidarity Contracts of the defensive type to be implemented to deal with the surplus of further 1,100 workers of Telecom Italia S.p.A.;

.

organisation of specific courses to allow the professional retraining and consequent re-employment of workers covered by the Solidarity Contract, with priority being given to the Directory Assistance employees;

.

provision to extend the Solidarity Contract of July 21, 2009 for Directory Assistance (12.54) workers for a further two years;

.

application of the Solidarity Contract to a maximum of 450 surplus workers of Shared Services Center S.r.l. and the launch of a professional retraining plan;

.

recourse to mobility pursuant to Law 223/91 for the workers of Shared Services Center S.r.l. not covered by the Solidarity Contract.

The Company also committed itself to offering 40 former TILS workers, currently unemployed, the opportunity to be re-employed within the Group.

In October and November 2010, agreements were drawn up to apply the guidelines identified in the framework agreement of August 4, 2010.

On October 25, 2010, Telecom Italia S.p.A. and the most representative trade unions signed a solidarity contract of the defensive type at the Ministry of Employment and Social Policy, in accordance with current legal provisions, covering approximately 29,200 workers of Telecom Italia S.p.A. for a period of two years (until November 7, 2012), in order to prevent 1,100 redundancies resulting from the Company's 2010-2012 Strategic Plan.

On the same day, an agreement was also signed on the initial training projects aimed at re-skilling the staff covered by the Solidarity Contract to take on other jobs. Worker participation is voluntary. The Agreement also contains a commitment to provide training aimed at improving the knowledge of workers, in order to prevent the danger of professional obsolescence.

On November 4, 2010, at the Ministry of Employment and Social Policy, Shared Service Center S.r.l. and the trade unions signed a Solidarity Contract of the defensive type, as required by current legislation, in respect of approximately 2,300 workers of Shared Service Center S.r.l., for a period of four years (until November 14, 2012) in order to prevent 388 redundancies resulting from the Company's 2010-2012 Business Plan, which was illustrated to the trade union during specific meetings.

Again on November 4, 2010, an agreement was signed on training projects for the professional retraining of the workers involved. Worker participation is voluntary.

In the context of the mobility procedure pursuant to Law 223/91, launched on October 26, 2010 by Telecom Italia S.p.A., an agreement was signed with trade unions and the workers representatives on November 2, 2010 which allows 3,900 surplus workers of Telecom Italia to be put on mobility programmes by December 31, 2012. The primary criterion applied to identifying the workers, as agreed between the parties, will be fulfilment of pension requirements during the period of the allowance. Only workers who do not object to the mobility programme will be admitted. In addition to the mobility allowance provided under Law 223/91, the Company will pay a voluntary redundancy incentive calculated according to pre-established criteria.

On November 16, 2010, in the context of the mobility procedure under Law 223/91 launched on November 9, 2010 by Shared Service Center S.r.l., an agreement was signed with trade unions and unitary union representatives which allows 50 surplus workers of the company to be put on mobility programmes according to the same criteria and conditions set out above.

As regards Industrial Relations activities within Tim Brasil, following the acquisition of the company Intelig at the end of 2009, the collective labour agreements were unified by allowing Intelig to sign up to the agreements and standards of the TIM Group.

At Tim Brasil, the 2010 collective union agreements are consistent with the current economic, political and legal situation of the country. The company is negotiating three agreements (in 2008 the contracts had been renewed for two years, leaving only the salary increase element open for annual discussion) with the two federations representing all the employees: FITTEL and FENATTEL (the latter alone represents 82% of employees). These agreements relate to:

.

economic and social conditions;

.

the company s profit-sharing programme;

.

the hourly rate of pay. On the basis of this agreement, overtime hours may be met by a reduction in the normal working hours or through days off in the three months following the completion of the overtime. After that, the hours will be paid.

The profit-sharing programme has now been approved. The other two negotiations are expected to be completed by January 2011.

Telecom Italia Media

During the year, discussions held with the union representatives of journalists focused essentially on the implementation aspects of the Solidarity Contract signed on February 2, 2009 for the period between March 1, 2009 and February 28, 2011.

On October 11, 2010, an agreement was signed with the Editorial Office Committee of La7, FNSI and ASR, establishing a different distribution of working hours under a solidarity system, following the increase in working hours resulting from the action taken by Telecom Italia Media S.p.A. in accordance with the aforementioned agreement of February 2 , 2009.

On December 14, 2010, Telecom Italia Media S.p.A. informed the Editorial Office Committee, FNSI and ASR that, as a result of the actions taken under the Solidarity Contract, pursuant to letters a) and b) of this contract, the reduction in the number of journalists and the more efficient use of these journalists would lead to an overall recovery of the redundancies during the month of December 2010 and that, consequently, the Solidarity Contract would end earlier than planned on December 31, 2010, instead of February 28, 2011.

As regards discussions with the union representatives of non-journalists, we report that on May 5, 2010 an agreement was signed with the unitary union representatives of Telecom Italia Media to extend from 12 to 24 months the maximum period for recourse to fixed term and temporary contracts for the launch and implementation of new projects and activities, pursuant to article 24, paragraph 1) point c) and article 25, paragraph 1, reason 3 of the national collective labour agreement for employees of private radio and television companies.

We also report that on November 8, 2010, the companies Telecom Italia Media S.p.A. and Telecom Italia Media Broadcasting srl signed an agreement with the national and local trade union representatives and the workers representatives regarding the performance-related pay applicable for the period 2010-2012.

In particular, the performance-related pay is split into two parts: one related to the income indicator (EBITDA), which counts for 70%, and one related to the quality indicator (for Telecom Italia Media S.p.A. the AUDIENCE SHARE and for Telecom Italia Media Broadcasting the NETWORK DIGITALISATION PLAN), which counts for 30%.

For the period 2011-2012, the performance-related pay will be extended to staff on fixed term and agency contract workers as well.

Finally we report that the national collective labour agreement for the employees of private radio and television companies expired on December 31, 2009. Various meetings were held in 2010 between the FRT (Federazione Radio Televisioni) delegation and both national and local union delegations. No agreement has yet been reached on renewing the national collective labour agreement.

Remuneration policy

Remuneration policies and systems were focused in 2010 on guaranteeing competitiveness in the labour market in a way that was consistent with the objectives of attracting, developing and retaining resources and differentiating pay according to objective and agreed criteria.

The management of the fixed components is inspired by criteria of ever greater selectivity in the pool of resources concerned, consistent with the instructions contained in the 2010-2011 Business Plan. Its aim is primarily to reward resources who present subjective characteristics of excellence, have essential skills and hold key positions, considering both their pay compared to the external market and their individual performance trend.

The variable component of the remuneration has been established as an element of distinction, with an ever closer correlation being established between the remuneration package and the performance and revenue of the company.

The MBO 2010 system, a short term formalised incentive tool aimed at managers and particularly valuable employees, confirmed the importance that the company continued to place on corporate and departmental macro-economic objectives in 2010.

Furthermore, within the MBO 2010 system, the following objectives were set in order to ensure that aspects relating to sustainability are taken into appropriate consideration in the decisions taken by Telecom Italia's management.

Stakeholder of reference

Targets subject to incentives

Customers

Customer Satisfaction

Quality of the service delivered

Quality of the service perceived by consumer and business customers (187, 191, 119 and Business Toll free number)

Quality of the service perceived by other national fixed and mobile telephony operators

Human Resources

Health and safety of employees

Programmes of training and professional growth

Welfare activities (People Caring) and the wellbeing of employees

The Environment

Consumption of materials, energy and water

Shareholders and Institutions

Quality and speed of company information delivery

The Community

Organisation of cultural exhibitions

Quality of initiatives/projects for the Community

The non-monetary component of the remuneration package continued to be monitored and calculated in 2010 with reference also to the potential impact in terms of environmental sustainability (presence of a range of cars producing less CO_2 emissions).

Stock options

The instrument of stock options has been used within the Telecom Group in order to retain and offer long term incentives to members of management.

Telecom Italia

In the course of 2010, the deadline passed for exercising options relative to:

- the third lot of the 2002 Stock Option Plan;
- the third lot of the 2002 Top Stock Option Plan;
- the third lot of the 2003-2005 Stock Option Plan (formerly TIM).

A ban on exercising options included in existing Plans was imposed for the Shareholders Meeting, from April 13, to May 24, 2010, in accordance with the relevant Regulations.

The essential elements of the Telecom Italia stock option plans are summarised in the Equity compensation Plans Note included of this Annual Report.

Employees Share Ownership Plan 2010-2014

On April 29, 2010, the Shareholders' Meeting launched the 2010-2014 Employees Share Ownership Plan for all employees of Telecom Italian or its subsidiaries with registered office in Italy on permanent employment contracts.

The purpose of the initiative is to increase motivation to achieve corporate objectives and strengthen the sense of belonging to the company.

The Plan provides for employees to purchased ordinary shares with a 10% discount on the market price up to a maximum counter-value of 3,000 euros. Subscribers who keep their shares for a year and remain in employment will receive Bonus Shares equivalent to one free share for every 3 shares bought at a discount.

The Plan complies with the conditions for access to the fiscal benefits of article 51 of the Consolidated Law on Income Tax. Therefore, employees who decide to retain ownership of the shares bought at a discount, and assigned free of charge for three years from the respective dates of purchase/assignment, will be entitled to and exemption from tax and contributions on the benefit paid by the company in terms of discount and bonus shares.

During the subscription period, between June 28, and July 9, 2010, the ordinary shares were offered for purchase at a price of 0.84 euros each, corresponding to an arithmetical average of the official prices of shares recorded between May 25, and June 25, 2010 on the Electronic Stock Exchange, minus a discount of 10%. The offer was taken up by 9,474 employees (approximately 16% of the entitled employees), who purchased a total of 27,056,139 ordinary shares, equal to 87% of the total amount of 31,000,000 shares established by the Board of Directors' meeting of May 6, 2010, exercising the powers granted by the Shareholders' Meeting of April 29, 2010. The shares, which amounted to 0.20% of the total ordinary shares in Telecom Italia, were issued and assigned to purchasers on July 29, 2010.

Shareholders

Financial communication

In the course of 2010, the Company organised quarterly conference calls, road shows abroad, and meetings at the Group's corporate centres (reverse road shows) and participated in sector conferences. During these events, meetings were held with over 300 investors. In addition to these there are the direct meetings and telephone conversations which the IR team handles every day.

The responses given to the financial market by the Group fulfil the requirements of relevance, sensitivity of information, consistency and topicality in respect of the issues dealt with, the Group structure and the actions undertaken to achieve the targets of the Strategic Plan.

Financial communication also takes into consideration the needs of investors linked to Socially Responsible Investing (SRI), which favours companies that pay attention to ethical, social and environmental factors as well as financial aspects. Communication with this particular category of investors, which is managed in accordance with the Group Sustainability department, is developed through individual contacts and participation at dedicated events.

As regards relations with individual shareholders (retail) - today there are nearly 550,000 holders of ordinary shares Telecom Italia s strategy is aimed at increasing channels of communication to respond in a rapid and effective way to queries about the performance of the shares and, more generally, of the Group. Indications and ideas that emerge from dialogue with retail investors are collected and communicated to top management.

The TI Alw@ys ON (www.telecomitaliaclub.it) Shareholders' Club was launched in 2006 as a virtual meeting place between the company and its individual investors. However, the Club is also open to those who do not have shares in the Group, and just by joining the Club, members can obtain the same free services that are reserved to shareholders, that is:

.

SMS alert, which every day reports the closing price and the percentage variations of Telecom Italia s ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the FTSE/Mib index;

.

Weekly Market report: sent every Monday morning, it summarises performance during the week that ended the previous Friday;

.

Quarterly newsletter: contains a commentary on the most recent economic and financial results and details of events and trends that have influenced the performance of results, as well as clarifications on the financial and business strategy adopted by the top management.

In addition to these services, Telecom Italia offers shareholders the Guide to the Individual Shareholder, an in-depth document about the Group, available on request and on the website, as well as constant updates through the press releases (institutional, concerning products, financial).

As regards online financial communication, Telecom Italia s website (www.telecomitalia.it) is constantly updated and renewed. This year, Telecom Italia achieved the following positions in the rankings drawn up by Hallvarsson & Halvarsson, the Swedish company, which rewards the best companies in terms of financial and corporate communication:

- 3rd place in the Web Ranking European Awards 2010 and first company in the tlc sector;

- 3rd place in the Web Ranking Awards Italy 2010.

Risk Management

In order to ensure a global approach to risk management, Telecom Italia Group has adopted an integrated process inspired by the Enterprise Risk Management Framework (ERM)(17). This is a corporate risk governance tool used to identify, assess and manage risks.

At the heart of the system is the Group Risk Management Committee which is chaired and coordinated by the Administration, Finance and Control Department Manager, and is made up of:

.

the Managers of the Domestic Market Operations , Technology & Operations and International Business departments;

.

the Managers of the General Counsel & Corporate and Legal Affairs , Human Resources and Organization , Purchasing and Security departments;

.

the Manager of the Risk Management department of Administration, Finance and Control.

The Manager of the Risk Management department supports the coordination activity of the Committee.

The Committee meets every three months (or when specifically required). Its purpose is to administer the Group's risk management process, coordinating the preventive action plan designed to ensure the operational continuity of the business, and monitoring the effectiveness of the countermeasures adopted.

The ERM approach, approved by the Group Risk Management Committee, is based on an assessment of the risk profile by management, in relation to both company processes and strategic objectives. This approach involves mapping the risks and focusing on the ones considered to be the most important, drawing up a Master Plan of mitigating actions and carrying out risk treatment activity involving the establishment of interdepartmental working groups defined by the Group Risk Management Committee.

The process is updated on an annual basis (or more frequently) at the discretion of the Risk Management Committee. Updating and support is the responsibility of the Risk Management department.

During 2010:

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the phases specified by the ERM 2009 cycle were completed, which involved determining the degree of maturity of the risk management process and establishing action plans for the main risks;

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the ERM 2010 cycle was launched;

.

the corporate risk profile for 2010 was defined for the Group (excluding Tim Brasil), which involved the completion of the analysis phase and part of the evaluation phase (risk assessment and allocation). The subsequent phases are expected to be completed during 2011.

Alternative Performance Measures

In this Report on Operations, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A., for the year ended December 31, 2010, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in other periodical financial reports (half-year financial report at June 30 and interim reports at March 31 and September 30) should, however, not be construed as a substitute for those required by IFRS.

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

·

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

Profit before tax from continuing operations

+

Finance expenses

-

Finance income

+/-

Other expenses (income) from investments

+/-

Share of losses (profits) of associates and joint ventures accounted for using the equity method

EBIT - Operating profit

+/-

Impairment losses (reversals) on non-current assets

+/-

Losses (gains) on disposals of non-current assets

+

Depreciation and amortization

EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

(1)

Expenses (income) from investments for Telecom Italia S.p.A.

(2)

Line item in Group consolidated financial statements only.

·

Organic change in revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent. The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Report on Operations as well as an analysis of the major non-organic components for years 2010 and 2009.

·

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

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

Net financial debt is calculated as follows:

	+
Non-current financial liabilities	
	+
Current financial liabilities	
	+
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	
	A)
Gross financial debt	
	+

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

Equity Investments held by Directors, Statutory Auditors and Key Managers

In accordance with article 79 of the regulation for the introduction of Legislative Decree 58 dated February 24, 1998, adopted by Consob under Resolution 11971 of May 14, 1999, the following table presents the equity investments held in Telecom Italia S.p.A. and in the companies which it controls, based upon communications received and other information acquired from all the individuals who, during 2010 or a part of that year, have held the post of director, statutory auditor and key manager in Telecom Italia S.p.A.

The data provided in respect of key managers is an aggregate.

Name	**Company**	**Class of shares**	**Number of shares held at end of 2009 (or at date of appointment)**	**Number of shares purchased in 2010**	**Number of shares sold in 2010**

Number of shares held at end of 2010 (or as of the date on which the individual left post, if before)

BOARD OF DIRECTORS

Gabriele GALATERI DI GENOLA

Telecom Italia S.p.A.

Ordinary

Savings

176,000

88,000

176,000

88,000

=

=

352,000

176,000

Franco BERNABE

Telecom Italia S.p.A.

Ordinary

Savings

168,000(1)

180,000(2)

150,000

150,000

=

=

318,000 (1)

330,000 (2)

C e s a r I z u e l
ALIERTA

=

=

=

=

=

=

P a o l o
BARATTA

Telecom Italia
S.p.A.

Ordinary

172,500 (3)

=

=

172,500(3)

T a r a k B E N
AMMAR

=

=

=

=

=

=

Roland BERGER

Telecom Italia S.p.A.

Ordinary

Savings

562,500

700,000

=

=

=

=

562,500

700,000

Elio CATANIA

=

=

=

=

=

=

Jean Paul FITOUSSI

=

=

=

=

=

=

Berardino LIBONATI

Telecom Italia S.p.A.

Ordinary

373,100

=

=

373,100

Julio LINARES LOPEZ

=

=

=

=

=

=

Gaetano MICCICHE

=

=

=

=

=

=

Aldo MINUCCI

Telecom Italia S.p.A.

Ordinary

2,595

=

=

2,595

Renato PAGLIARO

Telecom Italia S.p.A.

Savings

60,000

=

=

60,000

Mauro SENTINELLI

=

=

=

=

=

=

Luigi ZINGALES

Telecom Italia S.p.A.

Ordinary

58,000

=

=

58,000

BOARD OF STATUTORY AUDITORS

Enrico Maria BIGNAMI

=

=

=

=

=

=

Gianluca PONZELLINI

=

=

=

=

=

=

Lorenzo POZZA

=

=

=

=

=

=

Salvatore SPINIELLO

=

=

=

=

=

=

Ferdinando SUPERTI FURGA

=

=

=

=

=

=

KEY MANAGERS

Telecom Italia S.p.A.

Telecom Italia S.p.A.

Telecom Italia Media S.p.A.

Ordinary

Savings

Ordinary

26,240

55,484

48

61,440

64,100

=

=

=

44(*)

87,680

119,584

4

(*) Shares from reverse stock split (one new share for every 10 old shares)

(1) Of which 18,000 shares held indirectly

(2) Of which 30,000 shares held indirectly

(3) Shares held indirectly

Glossary

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 technology provide to transfer 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.

ADR (American Depositary Receipt). Represents ownership in the shares of a non-USA company that trades in USA financial markets like the shares of USA based companies.

ADS (American Depositary shares). Used for the listing of Telecom Italia ordinary and savings shares on the NYSE (New York Stock Exchange). The ordinary and savings ADS (American Depositary Shares) representing, respectively, 10 ordinary shares and 10 savings shares of Telecom Italia.

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 transmit up to 6 Mbps to a subscriber, and as much as 832 Kbps or more in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

Backbone. Network portion with the highest traffic intensity and from which the connections for services in the local areas depart.

Bitstream. Wholesale Broadband access service which consists of supplying an access to XDSL Telecom Italia network and a 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.

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).

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

Carrier. Company that makes available the physical telecommunication network.

CDP (Carbon Disclosure Project) An international initiative that encourages companies to focus on deal with the risks and emerging opportunities of climate change.

CO_2 Carbon dioxide Carbon dioxide, one of the most important greenhouse gases. Attributable to industrial processes as a product of combustion, in particular from the use of fossil fuels.

Cogeneration Cogeneration is the joint production of usable electrical (or mechanical) and heat energy drawn from the same primary source. Cogeneration, using the same fuel for two different uses, aims at a more efficient use of primary energy, with respective financial savings, above all in those production processes where the electricity and thermal extraction take place contemporaneously.

Co-siting Agreements to share technological sites (for Telecommunications, specifically, sites of access to the network and passive infrastructure) by several operators in order to achieve a more efficient use of the network infrastructure in urban and rural areas.

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

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 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 a telecommunications equipment 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.

EEB (Energy Efficiency in Buildings). An international initiative promoted by WBCSD for research into the energy efficiency of buildings.

EFFC (Extraction Full Free Cooling). A system of cooling intended to reduce consumption without the use of greenhouse gases. EFFC is based on the principle of Free Cooling (forced ventilation without the use of air-conditioning), associated with a system for extracting the hot air produced by the equipment, and the further (adiabatic) cooling of the incoming air, achieved by using an area with a high concentration of vaporized water.

EMS (Environmental Management Systems). Environmental Management Systems contribute to the management, in a sustainable way, of the production and support processes, and are a stimulus to continuous improvement in environmental performance in that they are instruments for ensuring the effective management, prevention and continuous reduction of environmental impact in the field of working processes.

EPS (External Power Supplies). External power supplies for equipment

EuP (Energy-using Products) Within the scope of the Directive for the eco-compatible design of products which consume energy (Eco-design Directive for Energy-using Products 2005/32/EC), the regulatory framework has been defined to which producers of energy-using products (EuP) must comply, from the design phase onwards, to increase energy efficiency and reduce the negative environmental impact of their products.

FFC Full Free Cooling. A system of cooling based on the use of forced ventilation in order to reduce energy consumption.

FSC (Forest Stewardship Council). The Forest Stewardship Council is an international non-governmental, non-profit organization. FSC is an internationally recognized system of forestry certification. The purpose of the certification is to ensure proper forestry management and the traceability of derivative products. The FSC logo ensures that the product has been created with raw materials originating in properly managed forests according to the principles of the two main standards: forestry management and the chain of custody. The FSC certification scheme is third party and independent.

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. In the case of FTT Curb (Fiber to the Curb) the fiber arrives at the apparatus (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of FTTHome (Fiber to the Home), the fiber terminates inside the home of the customer.

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

HCFC (Hydrochlorofluorocarbons). Hydrochlorofluorocarbons: chemical molecules mainly used in cooling plants to replace chlorofluorocarbons, which have been banned by the Montreal protocol, thanks to their relatively limited ozone-depleting effect (approximately 10% of the ozone-depleting rating of CFC).

HFC (Hydrofluorocarbons). Hydrofluorocarbons: compound molecules used in cooling equipment. They are part of the family of greenhouse gases. They do not cause ozone depletion.

Home Access Gateway Access Gateway Home gateway Residential Gateway. A residential gateway is a home networking device, used as a gateway to connect devices in the home to the Internet or other WAN.

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

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.

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.

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

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

LCA (Life Cycle Analysis) Life Cycle Analysis: analytic methodology for the evaluation and quantification of environmental impact associated to a product/process/activity along the whole life cycle, from the extraction and acquisition of raw materials up to the end of life.

Local Loop (Doppino Telefonico). 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 .

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.

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 fiber optic or metallic cable or point to point radio connections.

NGDC (Next Generation Data Center). A major rethink of the IT architecture through the physical concentration and virtualization of the servers in order to reduce the costs of maintenance/management and energy consumption, and to improve efficiency.

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

OHSAS (Occupational Health and Safety Assessment Series) The international standard that sets the prerequisites for management systems for the health and safety protection for workers.

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

Optical fiber. Thin glass, silicia 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.

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.

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).

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).

RoHS (Restriction of Hazardous Substances). Restriction of Hazardous Substances. European Directive n° 95 of 2002 regulating the use of hazardous substances in electrical and electronic equipment.

SAR (Specific Absorption Rate). Specific Absorption Rate. evaluates the electromagnetic power absorbed by a tissue mass . SAR is measured in Watt/kg. As far as mobile phones, the law now enforces SAR as the reference parameter to define the basic limit. a person exposed to an electromagnetic field inducing a SAR level higher than established may undergo the relevant effects and health damage. To safeguard the population health and the health of people directly exposed, by virtue of their work, to electromagnetic waves, the European legislation has established SAR thresholds than should not be exceeded.

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.

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

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.

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.

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.

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-program supply on user's request, with payment of a fee for each purchased program (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.

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.

Footnotes

(1) The organic change in revenues, EBITDA and EBIT is calculated by excluding the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.

(2) The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), is equal to 2.33215 in 2010 and 2.76933 in 2009. The effect of the change in the exchange rates is calculated by applying, to the period under comparison, the foreign currency translation rates used for the current period.

(3) This approach was defined for the first time by John Elkington in 1994 in the article entitled Towards the sustainable corporation: Win-win-win business strategies for sustainable development". California Management Review 36, no. 2: 90-100.

(4) The economic value distributed to the Community stakeholder is not shown in the table. See the respective chapter.

(5) The FFC cooling system consists of a forced ventilation system and interaction between areas of different temperature without recourse to traditional air conditioning systems and, in particular, without the use of climate altering gases. The system, which is currently applied in over 400 plants, allows a saving of over 85% to be achieved compared to traditional air conditioning solutions.

(6) Virtualisation makes the functions of a data processing machine available without the machine actually being present.

(7) These reciprocal agreements between operators are required by the Electronic Communications Code in order to promote more efficient use of network infrastructure and optimise mobile network coverage in urban and rural areas. Each operator retains ownership of their passive infrastructure (masts and towers, electricity and air conditioning plants and civil infrastructure) and hosts the other.

(8) This system uses the temperature difference between the surface and a point situated a few metres below ground in order to directly achieve natural cooling of the air in the ventilation system or of a fluid that is pumped through a heat exchanger.

(9) The GHG Protocol (Greenhouse Gas Protocol Initiative), established in 1998 within the World Resources Institute and the World Business Council for Sustainable Development, supports business on the issue of greenhouse gas emissions, providing calculation and study methods aimed at promoting innovation and assuming responsibility for climate change.

(10) Emissions of CO2 connected to the use of fossil fuels for motor vehicles and heating have been calculated following the directions of the UNEP (United Nations Environment Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations www.uneptie.org) and in the case of Telecom Italia S.p.A. vehicles, by referring to the specific types of motor vehicles.

(11) To calculate emissions from the electricity purchased on the domestic market, the coefficient worked out by the GHG Protocol that takes into consideration the national energy mix - has been used, which is equal to 403 grams of CO_2/kWh. For Brazil, the coefficient worked out by the local Ministry of Science and Technology has been used, equal to 25 grams of CO_2/kWh, which is held to be more accurate.

(12) www.fsc.org.

(13) The term consigned waste describes waste delivered to the haulier for transport to the recycling and recovery or disposal facility.

(14) Slight variations compared to the situation on 31st December may occur until the following 30th March because the sources of the data are the loading/unloading registers, which are consolidated once the actual weight at destination has been verified. The information is supplied to the producer of the waste within 3 months of consignment, which is the reason for the potential variations in the data.

(15) SAR Specific Absorption Rate: assess the electromagnetic power absorbed by a mass of tissue. SAR is measured in Watt/kg.

(16) Guidelines for Limiting Exposure to Time-Varying Electric, Magnetic, and Electromagnetic Fields (up to 300 GHz).

Health Physics 74 (4): 494-522; 1998; Statement on the "Guidelines for limiting exposure to time-varying electric, magnetic and electromagnetic fields (up to 300 GHz). Health Physics 97(3):257-259; 2009.

(17) Enterprise Risk Management, 2004 by the Committee of Sponsoring Organizations of the Treadway Commission.

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Consolidated Statements of Cash Flows

Additional cash flow information

Note 1 Form, content and other general information

Form and content

Telecom Italia (the **Parent**) and its subsidiaries form the **Telecom Italia Group** or the **Group** . Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, Telecom Italia, are located in Milan at Piazza degli Affari 2, Italy.

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

The Telecom Italia Group operates 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 Telecom Italia Group consolidated financial statements for the year ended December 31, 2010 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as **IFRS**), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing art. 9 of Legislative Decree 38 dated February 28, 2005).

In 2010, the Group applied the accounting policies on a basis consistent with those of the previous years and did not elect the early adoption of any IFRS.

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 accordance with IAS 1 (*Presentation of Financial Statements*), comparative information included in the consolidated financial statements, unless otherwise indicated, refers to the preceding year.

Starting from the year 2010, following a detailed review of the indirect taxes paid by the Group in the different fiscal jurisdictions, some taxes paid in Brazil have been reclassified from Other operating expenses to Revenues and Other income as deductions. Specifically, these non-material reclassifications, which have been made also in light of the adoption of IFRS by the TIM Brasil group, will bring the Telecom Italia Group s accounting presentation in line with those of the major telecommunications operators. This will ensure greater comparability and a better understanding of the economic and financial information presented.

The amounts which have been reclassified are the following:

(millions of euros)	**Year 2010**	**Year 2009**
Taxes on revenues and on other income of the companies in Brazil (PIS and COFINS)	(334)	(271)

The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2010 was approved by resolution of the board of directors meeting held on February 24, 2011.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

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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;

.

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).

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the separate consolidated income statement, income and expenses relating to non-recurring transactions or events have been specifically identified and their relative impact has been shown separately at the main intermediate result levels. Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, (for instance: income/expenses arising from the sale of properties, business segments and investments included under non-current assets, income/expenses stemming from corporate-related reorganizations and income/expenses arising from fines levied by regulatory agencies).

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the consolidated statements of financial position, the separate consolidated income statements and the consolidated statements of cash flows.

Segment reporting

An operating segment is a component of an entity:

(a)

that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

(b)

whose operating results are regularly reviewed by the entity s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

(c)

for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic, Brazil and Argentina) and according to the specific businesses for the other segments.

The term operating segment is considered synonymous with Business Unit .

The operating segments of the Telecom Italia Group are as follows:

- **Domestic**: includes 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 in Italy;

- **Brazil**: includes mobile and fixed telecommunications operations in Brazil;

- **Argentina**: includes mobile and fixed telecommunications operations in Argentina, as well as mobile telecommunications operations in Paraguay;

- **Media**: includes television network operations and management;

- **Olivetti**: includes manufacturing operations for 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.

Beginning from the fourth quarter of 2010, Argentina is a new segment as a result of the Telecom Italia Group s acquisition of control of Sofora Telecomunicaciones S.A., the holding company which controls Nortel Inversora and

Telecom Argentina.

Furthermore, beginning January 1, 2010, the companies Shared Service Center and HR Services, previously consolidated under Other Operations, are now consolidated in the Domestic Business Unit. For purposes of comparison, the disclosure by operating segment for the periods under comparison has been appropriately reclassified.

Scope of consolidation

The changes in the scope of consolidation at December 31, 2010 compared to December 31, 2009 (excluding Discontinued operations, to which reference can be made in the Note Discontinued operations/non-current assets held for sale , are analyzed as follows:

Entry of companies in the scope of consolidation:

Company		Business Unit	Month
Telecom Italia Finance Ireland Ltd	newly formed	Other operations	December 2010
Flagship Store Bolzano 1 S.r.l.	newly formed	Domestic	December 2010
Flagship Store Torino 1 S.r.l.	newly formed	Domestic	November 2010
Flagship Store Bologna 1 S.r.l.	newly formed	Domestic	October 2010
Sofora Telecomunicaciones S.A. and related			

subsidiaries:

-

Nortel Inversora S.A.

-

Telecom Argentina S.A.

-

Micro Sistemas S.A.

-

Nucleo S.A.

-

Telecom Argentina USA Inc.

-

Telecom Personal S.A.

-

Springville S.A.

acquisition of control

Argentina

October 2010

Flagship Store Milano 2 S.r.l.

newly formed

Domestic

September 2010

Flagship Store Modena 1 S.r.l.

newly formed

Domestic

September 2010

Flagship Store Roma 2 S.r.l.

newly formed

Domestic

September 2010

Flagship Store Taranto 1 S.r.l.

newly formed

Domestic

September 2010

Flagship Store Vicenza 1 S.r.l.

newly formed

Domestic

September 2010

Flagship Store Catania 1 S.r.l.

newly formed

Domestic

July 2010

TLC Commercial Services S.r.l.

newly formed

Domestic

May 2010

Flagship Store Roma 1 S.r.l.	newly formed	Domestic	May 2010
Flagship Store Milano 1 S.r.l.	newly formed	Domestic	May 2010

Exit of companies from the scope of consolidation:

Company		**Business Unit**	**Month**
Brasilco S.r.l. (in liquidation)	liquidated	Other operations	December 2010
Netesi S.p.A. (in liquidation)	liquidated	Other operations	April 2010

Olivetti International B.V. (in liquidation)	liquidated	Olivetti	January 2010
Elettra TLC S.p.A.	sold	Domestic	September 2010
BBNed N.V.	sold	Other operation	October 2010
- BBeyond B.V.			
- InterNLnet B.V.			

Merger of companies:

Company	Business Unit	Month
Mediterranean Nautilus Ltd	Merged in Telecom Italia Sparkle Luxembourg S.A.	
	Domestic	December 2010
Latin American Nautilus Service Inc.	Merged in Latin American Nautilus USA Inc.	
	Domestic	March 2010

A breakdown of subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2010 and December 31, 2009 is as follows:

12/31/2010			
Companies:	**Italy**	**Abroad**	**Total**
subsidiaries consolidated line-by-line	40	68	108
joint ventures accounted for using the equity method	1	-	1
associates accounted			

for using the equity method

15

2

17

Total companies

56

70

126

12/31/2009

Companies:

Italy

Abroad

Total

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**

(*) 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, 2010 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 (and in any event with a time horizon of more than 12 months).

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. These are described in the specific paragraph Principal risks and uncertainties in the Report on Operations under Business outlook for the year 2011 ;

- the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital. This is described in the paragraph devoted to Share capital information under the Note Equity ;

- the policy for financial risk management (market risk, credit risk and liquidity risk). This is 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 date of the financial statements of all the subsidiaries 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, the assets, the liabilities, the revenues and the 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 are 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.

Under IAS 27, the total comprehensive loss (including the profit or loss for the year) 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.

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. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated 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 reporting 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.

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.

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.

In particular, under the equity method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor s share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

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 circumstances cease. 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 investee.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

Under IAS 27, starting from 2009, changes in a parent s ownership interest as a result of the disposal of an investment in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are 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 is recognized directly in equity and attributed to the owners of the Parent.

Intangible assets

Goodwill

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date of control of a business and measured as the excess of (a) over (b) below:

a)

the aggregate of:

-

the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);

-

the amount of any non-controlling interest in the acquiree measured at the non-controlling interest s proportionate share of the acquiree s identifiable net assets;

-

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 acquisition date of control.

IFRS 3 requires, *inter alia*, the following:

.

Incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;

.

in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded, is subsequently reduced only for impairment losses. Further details are provided in 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.

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 consolidated 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;

.

there is a contract binding the customer for a specific period of time;

.

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 foreseen 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. 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 consolidated 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. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess, if any, should be recorded immediately in the separate consolidated 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 consolidated 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 initially recognized as assets of the Group at 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 consolidated 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.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If 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 consolidated income statement on a straight-line basis over the lease term.

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 consolidated 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 are those arising from an explicit time horizon of three years as well as those extrapolated from the last year of the explicit time horizon to estimate the terminal value. 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 consolidated 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 consolidated income statement.

Financial instruments

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;
- 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 consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated 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 consolidated income statement.

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;

- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of available-for-sale financial assets 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 consolidated 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 consolidated 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 consolidated 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;

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 consolidated 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 consolidated income statement.

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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 consolidated income statement at the same time as the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated 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 consolidated 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 consolidated 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 IAS 39 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.

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 consolidated 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.

Non-current assets held for sale/Discontinued operations

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from the other statement of financial position assets and liabilities. The corresponding amounts for the previous period are not reclassified.

A discontinued operation is a component of an entity that has been divested or classified as held for sale and:

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represents a major line of business or geographical area of operations;

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is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

.

is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell.

Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a reversal of an impairment loss for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

Employee benefits

Provision for employee severance indemnities

Employee severance indemnities, 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 IAS 19, the Telecom Italia has elected to recognize all actuarial gains and losses in the separate consolidated income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the separate consolidated income statement under Employee benefits expenses .

Starting from January 1, 2007, gives the employee the possibility of choosing the destination of accruing employee severance indemnity either to supplementary pension funds or to the company. Companies that employ at least 50 employees are obliged to transfer the employee severance indemnity 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, performance share grants and long-term incentive plans); moreover, a broad-based employee share ownership plan has recently been introduced. The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in Employee benefits expenses over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated Other equity instruments . Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses .

For the plans subject to vesting conditions, when such conditions are not met, the amount recognized in Other equity instruments must be reclassified to Other reserves .

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses ; at the end of each year such liability is measured at fair value.

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.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses .

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 reporting 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 consolidated income statement.

Revenues

Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from 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.

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Revenues from services rendered

Revenues from services rendered are recognized in the separate consolidated 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.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as an agent (for example, for non-geographic numbers) only the commission received from the content provider is recognized as revenue.
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.

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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.

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 final 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.

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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 consolidated income statement in the year in which they are incurred.

Finance income and expenses

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated 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.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group. Income taxes are recognized in the separate consolidated 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 statement of comprehensive income indicates the amount of income taxes on each item included in Other components of the statement of comprehensive income .

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 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 .

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 the 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 possible recognition of goodwill, through the use of a complex process in determining such values.

Bad debt provision

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.

Depreciation and amortization expense

Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Accruals, contingent liabilities and employee benefits

As regards the provisions for asset retirement obligations, 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.

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.

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:

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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);

.

the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

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 losses carried forward to future years and deductible temporary 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.

New Standards and Interpretations endorsed by the EU and in force from January 1, 2010

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.

Improvements to IFRS issued in 2008

On January 23, 2009, Commission Regulation (EC) 70/2009 was issued adopting certain improvements to International Financial Reporting Standard (IFRS), among others, relating 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 adoption of this improvement did not have an impact on the consolidated financial statements at December 31, 2010.

Amendments to IAS 39 (Financial Instruments: Recognition and Measurement Eligible hedged items)

On September 15, 2009, Commission Regulation (EC) 839/2009 was issued adopting some amendments to IAS 39 which clarify certain aspects of hedge accounting:

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identifying the cases in which inflation may be a hedged risk;

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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 adoption of these amendments did not have an impact on the consolidated financial statements at December 31, 2010.

IFRIC 17 *(Distribution of Non-cash Assets to Owners)*

On November 26, 2009, Commission Regulation (EC) 1142/2009 was issued adopting IFRIC 17. This 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 consolidated income statement.

The adoption of this interpretation did not have an impact on the consolidated financial statements at December 31, 2010.

Amendments to IFRS 2 *(Group Cash-settled Share-based Payment Transactions)*

On March 23, 2010, Commission Regulation (EC) 2442010 was issued adopting the amendments IFRS 2. 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 adoption of these amendments did not have an impact on the consolidated financial statements at December 31, 2010.

Improvements to IFRS (issued in 2009)

On March 23, 2010, Commission Regulation (EC) 243/2010 was issued adopting the improvements, in force from January 1, 2010, to the following principles:

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IFRS 2 (*Share-based Payment*): the 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.

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IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*): the 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.

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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.

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IAS 1 (*Presentation of Financial Statements*): the 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.

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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.

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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.

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IAS 39 (*Financial Instruments: Recognition and Measurement*): the main amendments, to be applied prospectively to all unexpired contracts, are as:

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.

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IFRIC 9 (*Reassessment of Embedded Derivatives*): the amendments, applicable prospectively, exclude 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.

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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 (issue in 2009) did not have an impact on the consolidated financial statements at December 31, 2010.

New Standards and Interpretations adopted by the EU not yet in force

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2011 are reported below and briefly summarized.

Amendments to IAS 32 (Classification of Rights Issues)

On December 23, 2009, Commission Regulation (EC) 1293/2009 was issued adopting some amendments to IAS 32 regarding the accounting of 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 these amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 24 (*Related Party Disclosures*)

On July 19, 2010, Commission Regulation (EC) 632/2010 was issued adopting the amendments to IAS 24. These amendments 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 application of these amendments is not expected to have an impact on the consolidated financial statements.

Amendments to IFRIC 14 (*Prepayments of a Minimum Funding Requirement*)

On July 19, 2010, Commission Regulation (EC) 633/2010 was issued adopting the amendments to 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, with earlier application permitted. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

IFRIC 19 (*Extinguishing Financial Liabilities with Equity Instruments*)

On July 23, 2010, Commission Regulation (EC) 662/2010 adopted IFRIC 19. This interpretation clarifies the requirements accounting treatment 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:

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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 consolidated 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 Group s consolidated financial statements.

Improvements to IFRS issued in 2010

On February 18, 2011, Commission Regulation (EC) 149-2011 was issued adopting the improvements, in force beginning January 1, 2011, to the following principles:

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IFRS 1 ***(First-Time adoption of International Financial Reporting Standards)***: the amendments refer to the disclosure to be provided for the following specific cases: accounting policy changes in the year of first-time adoption of IFRS and use of the deemed cost after the date of transition to IFRS, also with reference to operations subject to rate regulation.

- **IFRS 3 (*Business Combinations*)**: the amendments:

limit the choice to measure non-controlling interests either at fair value or at the proportionate share of the acquiree s net identifiable assets at the acquisition date;

clarify that IFRS 2 should be applied at the acquisition date both for share-based payment transactions of the acquiree and for those replaced by the acquirer;

clarify requirements for contingent considerations.

- **IFRS 7 *(Financial instruments: disclosures)***: the amendments require qualitative disclosures in the context of the quantitative disclosure to help users to form an overall picture of the nature and extent of risks arising from financial instruments. Furthermore, the amendments clarify the required level of disclosure about credit risk and collateral held and provide relief from disclosure of renegotiated loans.

- **IAS 1 (*Presentation of financial statements*)**: the amendments clarify that an entity may present the analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

- **IAS 27 *(Consolidated and separate financial statements)***: the amendments clarify the adoption requirements of the amendments made to IAS 21, IAS 28 and IAS 31 as a result of the revision of IAS 27 in 2008.

- **IAS 34 *(Interim financial reporting)***: the amendments emphasize the principle that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. In particular, the amendments clarify how to apply this principle in respect of financial instruments and their fair values.

- **IFRIC 13 (*Customer loyalty programmes*)**: the amendments clarify how to measure the fair value for the award credits.

The application of the Improvements (issued in 2010) is not expected to have a material impact on the consolidated financial statements.

Note 3 Business combinations

Business Combinations

Year 2010

Acquisition of control of Sofora Telecomunicaciones S.A.

On October 13, 2010, once the necessary government authorizations were obtained, an agreement was formalized for the transfer of an 8% stake in Sofora Telecomunicaciones S.A. (Sofora) the holding company which controls Telecom Argentina from the Werthein group to Telecom Italia International, as established in the agreements signed between the Telecom Italia Group and the Werthein group on August 5, 2010.

The Antitrust and TLC Regulatory Authorities approved the transaction that allowed the Telecom Italia to raise its stake in the Sofora holding company to 58% and thus obtain control of the Telecom Argentina group.

Consequently, the chain of control of Telecom Argentina at December 31, 2010 shows that Sofora is owned 58% by the Telecom Italia Group and 42% by the Werthein group. Sofora, in turn, controls the entire ordinary capital stock of Nortel Inversora S.A. which controls Telecom Argentina with a 54.74% stake.

As part of the acquisition operation, which did not call for any cash disbursement, the Telecom Italia Group relinquished the call options that it held for the acquisition of the entire stake held by the Werthein group in Sofora, which had already been the subject of legal and administrative preventive measures issued by the Argentine Authorities. Such measures prevented the call options from being exercised or transferred. It was therefore impossible for Telecom Italia to purchase the remaining share capital of Sofora unless certain legal and administrative cases were settled and revocation of the preventive measures in effect was obtained, all of which would have been uncertain as to the timing and outcome.

The agreements reached on August 5, 2010 also called for the settlement of pending legal cases with the Werthein group and the drawing up of a new shareholders agreement for regulating the governance of the Telecom Argentina group. This agreement gives Telecom Italia control over operations, also through the designation of the majority of the board members and the appointment of top management of the Telecom Argentina group. The partner will have some rights to protect its investment as well as, relative to Telecom Argentina, responsibility for verifying observance of the commitments undertaken with the local Antitrust Authority through the Independent Regulatory Compliance Committee set up for this purpose.

Approval of the agreements by the local authorities came after an examination of the legal framework and the effects on the competitive environment, as well as the commitments undertaken by the parties in order to guarantee complete separation between the Telefónica group and the Telecom Italia Group with regard to their operations conducted in Argentina. Functional measures have been agreed for this purpose in order to ensure the absence of any influence and participation on the part of Telefónica in the decision-making process of the Telecom Italia Group regarding its Argentine subsidiaries. In addition, restrictions have been introduced regarding commercial and operational relations between the two groups within the Argentine market.

The most significant measures prohibit Telefónica and its representatives from taking part and voting in the corporate board meetings of Telco and Telecom Italia when the matters being addressed refer to telecommunications activities in the Argentine market. Furthermore, Telefónica may not designate board directors or administrators in the companies controlled by Telecom Italia in Argentina.

The accounting effects of the business combination as set forth in IFRS 3 can be summarized as follows:

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the measurement of the stake acquired is 130 million euros and corresponds to the fair value of the options relinquished by the Telecom Italia Group. The measurement also includes the bonus for control;

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the stake held in the Sofora group before acquisition of control was previously accounted for using the equity method and was remeasured at fair value at the acquisition date of control and came to about 394 million euros. This remeasurement produced a positive impact on the separate consolidated income statement of 266 million euros, net of the reversal of the reserve for negative exchange differences to the separate consolidated income statement;

.

all the assets acquired and liabilities assumed of the acquired group were measured for their recognition at fair value. Although the measurement for the 2010 financial statements was performed in an exhaustive manner, the reporting standard provides that within 12 months of the operation such provisional values could be the subject of further analysis and possible adjustment. Besides the amounts allocated to the assets acquired and the liabilities assumed, goodwill was recorded for 166 million euros, calculated as shown in the following table:

	(millions of euros)
Measurement of the stake acquired	130
Fair value of stake held in the Sofora group before acquisition of control	394
Value of net assets attributed to non-controlling interests	2,003
Total (a)	**2,527**
Value of net assets acquired (b)	**2,361**
Goodwill (a b)	**166**

The values of the main assets and liabilities at the acquisition date of the Sofora group (Argentina) are as follows:

Sofora group values at the acquisition date

(millions of euros)	**Current amounts to fair value**	**Carrying amounts**
Goodwill	166	-
Other non-current assets	3,648	1,483
of which Other intangible assets	*1,807*	*214*
of which Tangible assets		

1,823

1,251

Current assets

887

873

of which Cash and cash equivalents

392

392

Total assets

(a)

4,701

2,356

Total non-current liabilities

1,137

377

of which Deferred tax liabilities

807

44

of which Provisions

100

100

of which Non-current financial liabilities

183

183

Total current liabilities

1,037

1,035

of which Current financial liabilities

216

216

Total liabilities

(b)

2,174

1,412

Net assets

(a-b)

2,527

944

Share of Non-controlling interests

2,003

814

Share of the Telecom Italia Group

524

130

Non-controlling interests are measured in proportion to the share of the non-controlling interests in the net identifiable assets of the acquired company.

Had the acquisition taken place on January 1, 2010, the Telecom Italia Group consolidated financial statements would have included higher Revenues of approximately 2 billion euros and higher EBIT (operating profit) of approximately 440 million euros.

Year 2009

Acquisition of Intelig Telecomunicações Ltda

On December 30, 2009, Tim Participaçoes finalized the acquisition of Intelig Telecomunicações Ltda, the domestic and international Brazilian telecommunications operator for long-distance and data transmission services; the company was consolidated in the Telecom Italia Group as from that date.

Specifically, the acquisition 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 when agreements were sealed between Tim Participaçoes, its parent Tim Brasil and JVCO Participaçoes (controlled by the Docas group and the indirect parent of Intelig Telecomunicações Ltda).

The acquisition, through the merger transaction, was finalized on December 30, 2009 by assuming a financial payable of Intelig equal to 68 million U.S. dollars. 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 contingent liabilities.

In the 2010 financial statements, the business combination led to the recognition of goodwill for 84 million euros. This amount was definitively determined during 2010, that is, within 12 months following the operation calculated as the difference between the market price of the shares issued on behalf of the seller as at December 30, 2009 (295 million) and the assets and liabilities acquired and recorded at their fair value at the acquisition date (211 million euros).

In the 2009 financial statements, the provisional amount of goodwill amounted to 96 million euros. As provided by IFRS 3, in fact, the amounts relating to this business combination had been recognized provisionally in those financial statements. During 2010, those provisional amounts of assets and liabilities recognized at the acquisition date were adjusted with retroactive effect to take into account their fair value at the acquisition date with the consequent remeasurement of the initially recognized amount of goodwill.

Intelig Telecomunicações Ltda values at the acquisition date

	(millions of euros)
	Current values at fair value as determined in 2010

	Provisional values (2009 financial statements) Carrying amount
Goodwill	
	84
	96
	-
Other non-current assets	
	385
	272
	272
Total current assets	
	116
	131
	131

Total assets (a)	**585**	**499**	**403**
Total non-current liabilities	147	62	62
Total current liabilities	143	142	142
Total liabilities (b)	**290**	**204**	**204**
Net assets acquired (a-b)	**295**	**295**	

Note 4 Goodwill

Details of goodwill by business segment and the changes during 2009 and 2010 are presented in the following tables:

(millions of euros)	12/31/2008	Discontinued Operations	Increase	Decrease	Exchange differences	Reclassifications	12/31/2009
Domestic	**41,953**						

41,953

Brazil

1,038

84

307

1,429

European BroadBand

672

(661)

(11)

-

Media

228

228

Other operations(*)

-

(6)

11

5

Total

43,891

(661)

84

(6)

307

-

43,615

(*) 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.

(millions of euros)

12/31/2009

Increase

Decrease

	Exchange differences	Reclassifications	12/31/2010
Domestic			**41,953**
			(6)
			41,947
Brazil			**1,429**
			181
			1,610
Argentina			

-

166

7

173

Media

228

(46)

182

Other operations

5

(5)

-

Total

43,615

166

(57)

188

-

43,912

The increase of 297 million euros in 2010 is due to the following:

.

+166 million euros: for the allocation of goodwill after the acquisition of control and subsequent consolidation of the Sofora group (Argentina Business Unit); further details are provided in the Note Business combinations ;

.

+188 million euros: for exchange differences mainly relating to the goodwill of the Brazilian companies;

.

-46 million euros: for the impairment loss on the goodwill allocated to the Media Business Unit, based on the results of the impairment test;

.

-6 million euros: relating to the sale of the company Elettra;

.

-5 million euros: relating to the sale of the BBNed group.

The goodwill of the Domestic Business Unit at December 31, 2010 includes 415 million euros relating to the International Wholesale cash-generating unit, which is lower than the amount at December 31, 2009 owing to the aforementioned sale of the company Elettra.

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, 2010 and 2009 can be summarized as follows:

	12/31/2010			12/31/2009		
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**

Domestic	42,239	(292)	**41,947**	42,245	(292)	**41,953**
Brazil	1,617	(7)	**1,610**	1,436	(7)	**1,429**
Argentina	173	-	**173**	-	-	**-**
Media	228	(46)	**182**	228		

228

Olivetti

6

(6)

-

6

(6)

-

Other Operations

-

-

-

11

(6)

5

Total

44,263

(351)

43,912

43,926

(311)

43,615

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. The Group carried out the impairment test on an annual basis at December 31, 2010 using the same method as in the previous annual impairment test.

The result of the impairment test confirmed that the recoverable amount of the CGUs, with the exception of the Telecom Italia Media CGU, is higher than the carrying amount. Moreover, the recoverable amount of the Core Domestic CGU is lower than the estimate made at December 31, 2009 by 2,067 million euros. This means that a rise in the discount rate (WACC pre-tax) by 54 basis points would align the recoverable amount with the carrying amount.

The impairment test is carried out on two levels. At a first level, an estimate is made of the recoverable amount of the individual cash-generating units (or groups of units) to which goodwill is allocated and at a second level the group is considered as a whole. The cash-generating units (or groups of units) to which goodwill has been allocated are the following:

Segment	**Cash-generating units (or groups of units)**
Domestic	Core Domestic
	International Wholesale
Brazil	Tim Brasil
Argentina	Sofora group
Media	Telecom Italia Media

The value used to determine the recoverable amount of the cash-generating units (or groups of units) to which goodwill has been allocated is the value in use for the Domestic and Brazil CGUs, whereas the Sofora group and the Telecom Italia Media CGUs have been measured on the basis of stock market capitalization. In particular, in the case of Telecom Italia Media, owing to the significant fall in the listed price subsequent to December 31, 2010, consideration was also given to the change in the share price recorded in January 2011, in that the change is deemed to more appropriately reflect the market s reaction to the announcement of the wind-up of Dahlia TV, one of the CGU s major customers. This led to the emergence of an impairment loss for the Telecom Italia Media CGU equal to 46 million euros. As for the Sofora group, stock market capitalization increased subsequent to the acquisition date of control (October 13, 2010)

As for the other three cash-generating units for which the recoverable value has been estimated on the basis of the value in use, the basic assumptions to which the result is more sensitive are reported in the following table:

Core Domestic

International Wholesale

Brazil

EBITDA margin
(EBITDA/revenues) during the
period of the plan

EBITDA margin
(EBITDA/revenues)

during the period of the plan

EBITDA margin
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

Growth of EBITDA during the
period of the plan

Capital expenditures rate

(capex/revenues)

Capital expenditures rate

(capex/revenues)

Capital expenditures rate

(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 (Core Domestic, International Wholesale and Brazil) is based on the data in the three-year plan approved by the board of directors but not yet announced to the market. In order to consider this asymmetry of information in relation to the Core Domestic CGU (which constitutes the CGU to which the most significant part of goodwill has been allocated), stress analyses have been carried out on the flows of the plan that consider an unfavorable change in the principal variables on the front of revenues (Average revenue per User (ARPU) mobile calling consumer, mobile consumer calling customer base, wireline voice customer base, wireline broadband customer base and cloud computing). Even considering this downside scenario, the recoverable amount of the CGU is higher than its carrying amount, even though the difference between the two values is more than halved.

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

-0.26%

-0.5%

+1.80%

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 2010 results and up to February 18, 2011).

The cost of capital was estimated by considering the following:

a)

the criterion for the estimate of 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 = 1.06);

c)

the Beta coefficient for the Brazil CGU calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 1.06);

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 for comparison purposes was made to the weighted average cost of capital (WACC) identified by the analysts who follow Telecom Italia stock in their reports published after the announcement of the Group s third-quarter 2010 results and up to February 18, 2011.

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 announcement of the Group s third-quarter 2010 results and up to February 18, 2011. This rate expresses the implicit growth rate in the terminal value (g) of -0.26%. 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 result flow to be capitalized, a capital expenditures level (capex/revenues) was considered that is aligned with the median of the equity analysts (equal to 15.06%). Concerning the Brazil CGU, the growth rate was reduced compared to the prior year from 2.93% to 1.80% to take into account the progressive higher maturity of that market. For purposes of estimating the terminal value, a capital expenditures rate (capex/revenues) was used equal to 14.84% and higher than that of the analysts.

On the basis of these elements, the post-tax and pre-tax Weighted Average Cost of Capital and the capitalization rates (WACC - g) have been estimated for each cash-generating unit (the values of Brazil refer to flows in Brazilian reais) as follows:

	Core Domestic	**International Wholesale**	**Brazil**
	%	%	%
WACC post-tax	7.90	9.77	11.98
WACC post-tax g	8.16	10.27	10.18
WACC pre-tax	11.60	14.48	16.80
WACC pre-tax g	11.86	14.98	15.00

Values in use in excess of carrying amounts at December 31, 2010 are the following:

	Core Domestic	International Wholesale	Brazil
	(millions of euros)		
Excess of values in use over carrying amounts	(*)2,501	292	1,517

(*) Measured on the basis of the intermediate scenario between the three-year plan and the downside scenario.

Compared to last year (December 31, 2009), the changes in the values in use of the individual CGUs are the following:

	Core Domestic	International Wholesale	Brazil
	(millions of euros)		
Changes in value in use 12/31/2010 vs. 12/31/2009			

-2,067

-267

+1,954

For purposes of the sensitivity analysis, 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). 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	11.60	14.48	16.80
Long-term growth rate (g)	-0.26		

-0.5

1.80

Compound Annual Growth Rate (CAGR) of EBITDA

1.69(*)

-5.15

10.71

Capital expenditures rate (Capex/Revenues)

from 14.96

to 15.37

from 6.04

to 7.54

from 14.84

to 18.77

(*) This growth rate refers to EBITDA removed of the effects indicated in IAS 36.45, 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

0.54

5.72

3.31

Long-term growth rate (g)

-0.68

-7.67

-4.57

Compound Annual Growth Rate (CAGR) of EBITDA

-1.26

-8.03

-4.42

Capital expenditures rate (Capex/Revenues)

1.59

3.26

2.91

A second level impairment test was then conducted test for impairment at the level of the entire Group, in order to include the Central Functions and the cash-generating units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the cash-generating units of the Group has been compared with the carrying amount of the total operating capital referring to the same units/segments. No impairment losses resulted at this level of testing.

Note 5 Other intangible assets

Intangible assets with a finite useful life increased 1,619 million euros compared to December 31, 2009. Details on the composition and movements during the period are as follows:

(millions of euros)	**12/31/2008**	**Discontinued Operations[1]**	**Additions**	**Amortization**	**Impairment losses / reversals**	**Disposals**	**Exchange differences**	**Other changes**	**12/31/2009**

Footnotes

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
46
2,999

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

56

6,284

(1) This refers to the HanseNet Telekommunikation Gmbh group.

(millions of euros)

12/31/2009

Change in scope of cons.

Argentina BU

Additions

Amortization

Impairment losses / reversals

Disposals

Exchange differences

Other changes

12/31/2010

Industrial patents and intellectual property rights	Concessions, licenses, trademarks and similar rights
2,509	**2,999**
-	843
1,135	29
(1,507)	(314)
-	
(1)	
71	
422	
2,629	

(1)

134

10

3,700

Other intangible assets

240

964

325

(395)

(1)

47

(1)

1,179

Work in progress and advance payments

536

292

(5)

(1)

2

(429)

395

Total

6,284

1,807

1,781

(2,216)

(6)

(3)

254

2

7,903

Additions in 2010 include 287 million euros of internally generated assets (291 million euros in 2009). Further details are provided in the Note Internally generated assets . Other changes in 2010 include 5 million euros as a result of the exit from the scope of consolidation of the BBNed group and the company Elettra, sold during the last few months of 2010.

Industrial patents and intellectual property rights at December 31, 2010 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite period of time (amortized over the period of useful benefit, estimated in three years). They mainly refer to Telecom Italia S.p.A. (1,801 million euros) and the Brazil Business Unit (725 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2010 mainly refer to:

.

unamortized cost of telephone licenses (1,576 million euros for Telecom Italia S.p.A., 870 million euros for the Brazil Business Unit and 488 million euros for the Argentina Business Unit);

.

Indefeasible Rights of Use-IRU (210 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale);

.

TV frequencies of the Media Business Unit (123 million euros).

The unamortized cost of telephone licenses totaling 2,934 million euros, refers to the following:

.

Telecom Italia S.p.A.:

-

UMTS licenses, 1,558 million euros (amortized on a straight-line basis over 18 years), including the ex-IPSE license, 81 million euros, for the 2100 MHz frequency purchased in 2009 (amortized on a straight-line basis over 12 years), both expiring in 2021;

-

Wireless Local Loop, 7 million euros, expiring in 2021 (amortized on a straight-line basis over 15 years);

-

WiMax, 11 million euros, expiring in 2023 (amortized on a straight-line basis over 15 years);

.

Tim Brasil group:

-

GSM and 3G (UMTS) licenses, 816 million euros, expiring between 2012 and 2023 (amortized on a straight-line basis between 8-15 years);

-

TDMA, 54 million euros, expiring in 2012 (amortized on a straight-line basis over approximately 14 years);

.

Sofora group - Telecom Argentina:

-

PCS license of Nucleo S.A., 26 million euros, expiring in 2022 (amortized on a straight-line basis over 12 years);

-

PCS license of Telecom Personal S.A., 462 million euros, for the license with an indefinite useful life. This license falls under of the scope of periodic impairment testing carried out for the Sofora group CGU Argentina.

Other intangible assets at December 31, 2010 mainly include 227 million euros of subscriber acquisition costs capitalized and referring to some sales campaigns of Telecom Italia S.p.A. (132 million euros), the Brazil Business

Unit (28 million euros) and the Argentina Business Unit (67 million euros). The subscriber acquisition costs are amortized over the underlying minimum contract period (12 or 24 months) and eliminated from the books after completion of the amortization process.

Other intangible assets also include fees paid following the start of the stores project of Telecom Italia S.p.A. (to which reference can be made for further details). These fees are amortized on a straight-line basis over a period of three years; the residual unamortized amount is 33 million euros.

Work in progress and advance payments decreased 141 million euros mainly as a result of previous years assets put into operation by Telecom Italia S.p.A. and a writedown taken by the Parent for 5 million euros relating to systems development no longer reusable.

Amortization and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2010 and 2009 can be summarized as follows:

	12/31/2010
	(millions of euros)
	Gross carrying amount
	Accumulated impairment losses
	Accumulated amortization
	Net carrying amount

Industrial patents and intellectual property rights	
	13,985
	(7)
	(11,349)
	2,629
Concessions, licenses, trademarks and similar rights	
	5,757
	(251)
	(2,268)
	3,238
Other intangible assets	
	1,635
	(456)
	1,179
Work in progress and advance payments	
	405
	(10)

	395			
Total Intangible assets with a finite useful life	**21,782**	**(268)**	**(14,073)**	**7,441**
Intangible assets with an indefinite useful life (°)	**462**	-	-	**462**
Total Other intangible assets	**22,244**	**(268)**	**(14,073)**	**7,903**

(°) These refer to the PCS license with an indefinite useful life of Telecom Personal S.A. (Sofora group - Argentina).

12/31/2009 (millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	12,569	(14)	(10,046)	**2,509**
Concessions, licenses, trademarks and similar				

rights

5,053

(233)

(1,821)

2,999

Other intangible assets

609

-

(369)

240

Work in progress and advance payments

542

(6)

536

Total Intangible assets with a finite useful life

18,773

(253)

(12,236)

6,284

Intangible assets with

an indefinite useful life
-
-
-
-
Total Other intangible assets
18,773
(253)
(12,236)
6,284

The amounts in the table have been updated partly as a result of updating the allocation of the consideration paid for the acquisition of Intelig.

Impairment losses on "Industrial patents and intellectual property rights" decreased 7 million euros at December 31, 2010 due to the elimination of software acquired in prior years at the same time as some activities of the former Blu.

Impairment losses on Concessions, licenses, trademarks and similar rights basically refer to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables for international connections acquired by the Lan Med group (the former 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 vary from 233 million euros at December 31, 2009 to 251 million euros at December 31, 2010 solely as a result of the translation of the U.S. dollar financial statements to euro.

Note 6 Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned increased 1,656 million euros compared to December 31, 2009. Details on the composition and movements during the period are as follows:

(millions of euros)	**12/31/2008**	Discontinued Operations(1)	Additions	Depreciation	Impairment losses / reversals	Disposals	Exchange differences	Other changes	**12/31/2009**

Land	
	123
	(1)
	3
	125
Buildings (civil and industrial)	
	493
	5
	(45)
	(2)
	8
	36
	495
Plant and equipment	

12,037

(460)

1,853

(2,780)

(23)

325

634

11,586

Manufacturing and distribution equipment

38

7

(16)

2

31

Ships

33

(7)

	26
Other	
	857
	(31)
	310
	(328)
	(15)
	60
	(232)
	621
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

318

13,717

(1) This refers to HanseNet Telekommunikation GmbH.

(millions of euros)

12/31/2009

Change in scope of cons.

Argentina BU

Additions

Depreciation

Impairment losses / reversals

Disposals

Exchange differences

	Other changes
	12/31/2010
Land	
	125
	114
	5
	244
Buildings (civil and industrial)	
	495
	302

Footnotes

4
(57)
(4)
20
50
810
Plant and equipment
11,586
1,032
1,847
(2,799)
(3)
(10)
264
267
12,184
Manufacturing and distribution equipment
31
8
(13)

2
28
Ships
26
(4)
(20)
(2)
-
Other
621
209
205
(343)
(16)
36
78
790
Construction in progress and advance payments

833
166
679
(4)
(1)
50
(406)
1,317
Total
13,717
1,823
2,743
(3,216)
(7)
(51)
375
(11)
15,373

Additions in 2010 include 260 million euros of internally generated assets (224 million euros in 2009). Further details are provided in the Note Internally generated assets .

Other changes in 2010 comprise 41 million euros as a result of the exit from the scope of consolidation of the BBNed group and the company Elettra, sold during the last few months of 2010.

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 2010 and 2009:

Buildings (civil and industrial)	3.33%
Plant and equipment	3% - 50%
Manufacturing and distribution equipment	20%
Ships	9%
Other	11% - 33%

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2010 and 2009 can be summarized as follows:

12/31/2010		
(millions of euros)		
Gross carrying amount	**Accumulated impairment losses**	**Accumulated depreciation**

	Net carrying amount
Land	
	244
	244
Buildings (civil and industrial)	
	1,755
	(4)
	(941)
	810
Plant and equipment	
	62,765
	(55)
	(50,526)
	12,184
Manufacturing and distribution equipment	

	300
	(1)
	(271)
	28
Other	
	4,159
	(2)
	(3,367)
	790
Construction in progress and advance payments	
	1,318
	(1)
	1,317
Total	
	70,541
	(63)
	(55,105)
	15,373

12/31/2009

(millions of euros)

	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	125			**125**
Buildings (civil and industrial)	1,348	(1)	(852)	**495**
Plant and equipment	60,736			

	(66)
	(49,084)
	11,586
Manufacturing and distribution equipment	
	306
	(1)
	(274)
	31
Ships	
	143
	(11)
	(106)
	26
Other	
	3,599
	(8)
	(2,970)
	621
Construction in progress and advance payments	
	845
	(12)
	833

Total
67,102
(99)
(53,286)
13,717

The amounts in the table have been updated partly as a result of updating the allocation of the consideration paid for the acquisition of Intelig.

During 2010, accumulated impairment losses of tangible assets decreased owing to Telecom Italia S.p.A. s disposal of some impaired assets, mainly switching systems.

Assets held under finance leases

Assets held under finance leases decreased 119 million euros compared to December 31, 2009. Details on the composition and movements during the year are as follows:

(millions of euros)	**12/31/2008**	Discontinued Operations[1]	Additions	Depreciation	Other changes	**12/31/2009**
Buildings (civil and industrial)	**1,302**		30	(109)		

23

1,246

Plant and equipment

37

(37)

-

Aircraft

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.

(millions of euros)

12/31/2009

Additions

Depreciation

Other changes

12/31/2010

Buildings (civil and industrial)

1,246

19

(109)

(32)

1,124

Other

7

10

(6)

11

Construction in progress and advance payments

43

30

(31)

42

Total

1,296

59

(115)

(63)

1,177

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2010 and 2009 can be summarized as follows:

	12/31/2010
(millions of euros)	
	Gross carrying amount
	Accumulated impairment losses
	Accumulated depreciation
	Net carrying amount
Buildings (civil and industrial)	
	2,039

	(27)
	(888)
	1,124
Aircraft	
	30
	(30)
	-
Other	
	79
	(68)
	11
Construction in progress and advance payments	
	42
	42
Total	
	2,190
	(27)
	(986)
	1,177

12/31/2009				
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,068	(27)	(795)	**1,246**
Plant and equipment	-			

			-	**-**
Aircraft	30		(30)	**-**
Other	70		(63)	**7**
Construction in progress and advance payments	43			**43**
Total	**2,211**	**(27)**	**(888)**	**1,296**

At December 31, 2010 and 2009, lease payments due in future years and their present value are as follows:

(millions of euros)	12/31/2010		12/31/2009	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within 1 year	250	243	231	219
From 2 to 5 years	759	587	809	

	614			
Beyond 5 years	1,099	573	1,262	636
Total	**2,108**	**1,403**	**2,302**	**1,469**

(millions of euros)	**12/31/2010**	**12/31/2009**
Future net minimum lease payments	2,108	2,302
Interest portion	(705)	(833)

Present value of lease payments	**1,403**	**1,469**
Finance lease liabilities	1,674	1,815
Financial receivables for lessors net investments	(271)	(346)
Total net finance lease liabilities	**1,403**	**1,469**

At December 31, 2010, the ISTAT revaluation of lease payments was about 25 million euros (about 24 million euros December 31, 2009).

Note 7 Other non-current assets

Other non-current assets increased 1,089 million euros compared to December 31, 2009 and include:

	(millions of euros)
	12/31/2010
	of which Financial Instruments
	IAS 39
	12/31/2009
	of which Financial Instruments
	IAS 39
Investments accounted for using the equity method:	
Associates	84

	351
Joint ventures	
	1
	84
	85
	435
Other investments	
	43
	43
	53
	53
Securities, financial receivables and other	

non-current financial assets:	
Securities other than investments	
	13
	13
	15
	15
Financial receivables and other non-current financial assets	
	1,850
	1,850
	1,104
	1,104
	1,863
	1,863
	1,119
	1,119

Miscellaneous receivables and other non-current assets:	
Miscellaneous receivables	
	417
	249
	385
	280
Medium/long-term prepaid expenses	
	517
	508
	934
	249
	893
	280

Deferred tax assets (*)
1,863
1,199
Total
4,788
2,155
3,699
1,452

(*) Analyzed in the Note Deferred tax assets and deferred tax liabilities .

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:

(millions of euros)
12/31/2008
Investments
Sales and reimbursements of capital

Valuation using equity method

Reclassifications and other changes

12/31/2009

EtecSA (Cuba)

313

(24)

289

Italtel Group

39

(39)

-

Footnotes

Tiglio I	
	54
	(7)
	(10)
	37
Tiglio II	
	4
	3
	(6)
	1
Other	
	25
	2
	(3)
	24
Total	
	435
	5
	(7)
	(43)

(39)

351

(millions of euros)	**12/31/2009**	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	**12/31/2010**
EtecSA (Cuba)	**289**			100	(389)	**-**

Italtel Group	
	-
	35
	3
	38
Tiglio I	
	37
	(14)
	23
Tiglio II	
	1
	1
Other	
	24
	1
	(2)

(1)

22

Total

351

36

(2)

89

(390)

84

Investments in associates accounted for using the equity method increased 35 million euros as a result of the September 23, 2010 subscription to Italtel Group S.p.A. s capital increase, after which the investment was reclassified to associates since the total percentage interest held by the Telecom Italia Group through ordinary and preferred shares increased from 19.37% to 34.68%, with the concomitant modification of governance.

The investment in EtecSA (Cuba) was reclassified to Non-current assets held for sale. Consequently, the measurement of the investment includes the share of the result up to September 30, 2010 (54 million euros), exchange differences on translating foreign operations and an impairment reversal of 30 million euros up to the limit of the previously recorded impairment loss. The reversal was carried out in accordance with IFRS 5 following the agreements signed at the end of 2010 for the sale of the investment. The sale was finalized on January 31, 2011. Further details are provided in the Note Events subsequent to December 31, 2010 to the Telecom Italia Group consolidated financial statements.

Other 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. In particular, the principal effects on the separate consolidated financial statements in 2010 refer only to the share of the results for the year of Tiglio I (loss for 14 million euros).

Significant aggregate data for 2010 and 2009 relating to the principal 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 shares of the Parent and Non-controlling interests.

(millions of euros)

	2010	2009
Total assets	463	613
Total liabilities	375	317
Revenues	251	178
Profits (losses) for the year	(21)	39

Investments in joint ventures include the investment in Consorzio Tema Mobility. In 2009, this line item also included the 50% investment in Sofora Telecomunicaciones S.A..

Significant aggregate 2010 and 2009 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 shares of the Parent and Non-controlling interests.

(millions of euros)	2010		2009	
	Data of joint ventures	Telecom Italia Group s share 50%	Data of joint ventures	Telecom Italia Group s share 50%
	Consorzio Tema Mobility		Sofora Group	Consorzio Tema Mobility
Non-current assets				

0.1

0.0

1,404.3

0.1

702.2

Current assets

1.3

0.7

668.6

0.8

334.7

Total assets

1.4

0.7

2,072.9

0.9

1,036.9

Non-current liabilities

0.5

0.3

381.6

190.8

Current liabilities

0.1

0.0

900.3

450.2

Total liabilities

0.6

0.3

1,281.9

641.0

Revenues

2,346.9

1,173.5

EBITDA

718.6

359.3

Operating profit (EBIT)

505.3

252.6

Profit before taxes

410.4

205.2

Profit (loss) for the year

253.2

126.6

attributable to Non-controlling interests

188.7

94.4

attributable to owners of the Parent

64.5

32.2

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:

(millions of euros)	**12/31/2008**	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	**12/31/2009**

Assicurazioni Generali	3
	-
	3
Dahlia TV	5
	5
Fin.Priv.	15
	3
	18
Italtel Group	

	-
	-
New Satellite Radio	
	7
	(7)
	-
Sia SSB	
	11
	11
Other	
	16
	1
	(1)
	16
Total	

57

1

(1)

3

(7)

53

(millions of euros)

12/31/2009

Investments

Sales and reimbursements of capital

Valuation at fair value

Reclassifications and other changes

12/31/2010

Assicurazioni Generali

3

3

Dahlia TV

5

3

(8)

-

Fin.Priv.

18

(4)

14

Sia SSB

11

	11
Other	16
	(1)
	15
Total	**53**
	3
	-
	(4)
	(9)
	43

Financial receivables and other non-current financial assets are composed as follows:

(millions of euros)	12/31/2010	12/31/2009
Financial receivables for lessors net investments	199	228
Receivables from employees	45	54
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,524	792
Non-hedging derivatives	7	

	12	
Other financial receivables	75	18
Total	**1,850**	**1,104**

Financial receivables for lessors net investments refer to:

.

Teleleasing lease contracts directly negotiated with customers and of which Telecom Italia is the guarantor;

.

medium/long-term portion of rent 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:

(millions of euros)	**12/31/2010**	**12/31/2009**
Non-current portion	199	228

Current portion	72	118
Total	**271**	**346**

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 934 million euros (893 million euros at December 31, 2009).

They include, among others:

- the receivable from Aree Urbane, net of the provision for writedowns to adjust the receivable to estimated realizable value;

- medium/long-term prepaid expenses of 517 million euros (508 million euros at December 31, 2009) relating to the deferral of costs in connection with the recognition of revenues.

Note 8 Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Deferred tax assets	1,863	1,199
Deferred tax liabilities	(1,027)	(198)
Total	**836**	**1,001**

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:

(millions of euros)	**12/31/2010**

		12/31/2009
Deferred tax assets	1,977	1,301
Deferred tax liabilities	(1,141)	(300)
Total	**836**	**1,001**

Based on recovery assumptions, it is estimated that such net balance will reverse by next year for about 512 million euros.

The change in deferred tax assets and liabilities is a negative 165 million euros and is due to:

.

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, 2010 (+710 million euros); in particular, the Brazil Business Unit (Tim Celular) has a tax benefit of about 700 million euros arising mainly from the recognition of deferred tax assets in connection with the recoverability of prior years tax loss carryforwards, which can be carried forward indefinitely, which became recoverable on the basis of estimated future taxable income;

.

inclusion in consolidation of deferred tax liabilities of the Sofora group (equal to -44 million euros) as well as the recognition of deferred tax liabilities due to the allocation of higher amounts as part of the business combination of the same Sofora group at the acquisition date (equal to about -763 million euros);

.

exchange rate differences and other changes (-68 million euros).

Upon presentation of the tax return for the year 2008, the Parent, Telecom Italia, took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the derivation regime and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 dated November 29, 2008; this realignment - which provides for the reabsorption of the relative net deductible differences over five years starting in 2009 and up to 2013 in equal amounts will result in an absorption of net deferred tax assets of approximately 60 million euros per year. At December 31, 2010, the related unused tax credit was 193 million euros (246 million euros at December 31, 2009).

The temporary differences which make up this line item at December 31, 2010 and 2009 are the following:

(millions of euros)	**12/31/2010**	**12/31/2009**
Deferred tax assets:		
Derivatives	297	321
Provision for bad debts	264	208
Provisions for risks and charges	240	146
Sale and leaseback transactions of properties	13	

	8	
Provision for pension fund integration (Law 58/92)	39	73
Tax loss carryforwards	659	104
Capital grants	13	17
Unrealized intragroup gains	7	10
Taxed amortization and depreciation	147	118
Unused tax credit (realignment, Leg. Decree 185/08)	193	246

Other deferred tax assets	105	50
Total	**1,977**	**1,301**
Deferred tax liabilities:		
Derivatives	(152)	(97)
Business combinations for the part relating to the residual higher amounts	(836)	(63)
Deferred gains	(4)	(19)
Accelerated depreciation	(28)	(38)

Discounting of provision for employee severance indemnities	(29)	(31)
Bonds	(3)	(16)
Other deferred tax liabilities	(89)	(36)
Total	**(1,141)**	**(300)**
Total net deferred tax assets (liabilities)	**836**	**1,001**

At December 31, 2010, the Group has unused tax loss carryforwards for 5,958 million euros, mainly referring to certain foreign companies such as the Tim Brasil group, the Lan Med group (former 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)

2011	170
2012	4
2013	-
2014	4
2015	15
Expiration after 2015	163
Without expiration	5,602
Total unused tax loss carryforwards	**5,958**

Tax loss carryforwards considered in the calculation of deferred tax assets amount to 2,025 million euros at December 31, 2010 (367 million euros at December 31, 2009) and mainly refer to the Tim Brasil group, the Lan Med group (former Latin American Nautilus group) and the company Telecom Italia International.

Instead, deferred tax assets of 1,197 million euros (1,686 million euros at December 31, 2009) have not been recognized on 3,933 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable.

At December 31, 2010, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries and associates, in that their distribution or utilization is not foreseen, except for deferred taxes accrued within the Sofora group.

Note 9 Inventories

Inventories decreased 21 million euros compared to December 31, 2009. The composition is as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Raw materials and supplies	3	7
Work in progress and semifinished products	3	4
Finished goods	381	

		397
Total		
		387
		408

Inventories particularly refer to Telecom Italia S.p.A. for 112 million euros (167 million euros at December 31, 2009), the companies in the Brazil Business Unit for 103 million euros (162 million euros at December 31, 2009) and the companies in the Sofora group (Argentina) for 88 million euros. They mainly consist of equipment, handsets and relative fixed-line and mobile telecommunications accessories.

Another 69 million euros (56 million euros at December 31, 2009) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

Inventories written down in 2010 total 5 million euros (29 million euros in 2009) and mainly refer to the adjustment to estimated realizable value of devices and fixed and mobile handsets for marketing.

No inventories are pledged as collateral.

Note 10 Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets increased 343 million euros compared to December 31, 2009 and are composed of the following:

	(millions of euros)
	12/31/2010
	of which Financial Instruments
	IAS 39
	12/31/2009
	of which Financial Instruments
	IAS 39
Amounts due on construction contracts	
	36
	25

Trade receivables:				
Receivables from customers	4,536	4,536	4,440	4,440
Receivables from other telecommunications operators	1,870	1,870	1,673	1,673
	6,406	6,406	**6,113**	6,113

Miscellaneous receivables and other current assets:	
Other receivables	
	873
	280
	914
	247
Trade and miscellaneous prepaid expenses	
	475
	395
	1,348
	280
	1,309

247

Total
7,790
6,686
7,447
6,360

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The ageing of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2010 and December 31, 2009 is as follows:

Overdue:

(millions of euros)

12/31/2010

current

0-90 days

91-180 days

181-365 days

More than 365 days

Trade and miscellaneous receivables and other current assets

6,686

4,598

980

200

178

730

Overdue:

(millions of euros)

12/31/2009

current

			0-90 days	**91-180 days**	**181-365 days**	**More than 365 days**
Trade and miscellaneous receivables and other current assets	**6,360**	4,862	467	201	218	612

The increase in receivables overdue more than 365 days compared to December 31, 2009 is mainly due to higher collection times on credit positions considered in any case without risk in terms of collectibility.

Trade receivables amount to a 6,406 million euros (6,113 million euros at December 31, 2009) and are net of the provision for bad debts of 876 million euros (989 million euros at December 31, 2009).

Trade receivables specifically refer to Telecom Italia S.p.A. (4,178 million euros), the Brazil Business Unit (1,243 million euros) and the Sofora Telecom Argentina group (461 million euros).

Trade receivables include 29 million euros (26 million euros at December 31, 2009) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU.

Movements in the provision for bad debts are as follows:

(millions of euros)	**2010**	**2009**
At January 1	**989**	**828**
Discontinued operations	-	(48)
Provision charges to the income statement	339	449
Utilization	(509)	(434)

Change in the Sofora group area (Argentina)	29	-
Exchange differences and other changes	28	194
At December 31	**876**	**989**

The provision for bad debts refers to writedowns of individual receivables for 420 million euros (461 million euros at December 31, 2009) and overall writedowns for 456 million euros (528 million euros at December 31, 2009).

Accruals to the provision for bad debts are recorded for an exact amount on credit positions that present an element of individual risk. Instead, on credit positions that do not present such characteristics, accruals are recorded by customer segment on the basis of the average uncollectibility estimated on the basis of statistics.

Other receivables amount to 873 million euros (914 million euros at December 31, 2009) and are net of a provision for bad debts of 84 million euros (74 million euros at December 31, 2009). Details are as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**

Advances to suppliers	46	72
Receivables from employees	27	27
Tax receivables	346	378
Sundry receivables	454	437
Total	**873**	**914**

Sundry receivables mainly include:

- receivables from factoring companies for 70 million euros, of which 53 million euros is from Mediofactoring, a company of Banca Intesa group and 17 million euros from other factoring companies;

- receivable for the Italian Universal Service (53 million euros);

- receivables from the Italian state and the European Union (36 million euros) for grants regarding research and training projects.

Trade and miscellaneous prepaid expenses mainly pertain to building leases, rentals and maintenance payments as well as the deferral of costs referring to the recognition of revenues. Trade prepaid expenses particularly include 392 million euros of the Parent, Telecom Italia (property leases for 103 million, rent and maintenance payments for 58 million euros, insurance premiums for 15 million euros and the deferral of costs relating to the recognition of revenues pursuant to IAS 18 for 207 million euros.

Note 11 Current income tax receivables

Current income tax receivables amount to 132 million euros (79 million euros at December 31, 2009) and mainly include the receivables of the Tim Brasil group companies (111 million euros), as well as IRES and IRAP taxes paid in 2010 by Telecom Italia Sparkle in excess of the current IRES and IRAP taxes due (9 million euros).

Note 12 Investments (current assets)

On November 5, 2010, a settlement agreement was reached between the Telecom Italia Group (through the subsidiary ETI - Euro Telecom International NV) and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by ETI in Entel. Under the agreement, the Telecom Italia Group was paid an amount of 71 million euros. The effect on the separate consolidated income statement is a positive 29 million euros, net of incidental charges. The parties have also relinquished their respective claims regarding ETI s investment in Entel.

Note 13 Securities other than investments (current assets)

Securities other than investments (current assets) decreased 527 million euros compared to December 31, 2009. The composition is as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Held-to-maturity financial assets		
Unlisted securities other than investments held-to-maturity	-	

		-
Available-for-sale financial assets		
Listed securities other than investments available-for-sale, due after three months	1,316	1,093
Financial assets at fair value through profit or loss		
Listed securities other than investments held for trading	-	750
Total	**1,316**	**1,843**

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 1,159 million euros of Italian Treasury Bills (with an A rating by S&P s) and 149 million euros of bonds with at least a BBB+ rating with different maturity dates, all actively traded, therefore, readily convertible into cash.

Note 14 Financial receivables and other current financial assets

Financial receivables and other current financial assets decreased 665 million euros compared to December 31, 2009. Details are as follows:

(millions of euros)	12/31/2010	12/31/2009
Financial receivables for lessors net investments	72	118
Receivables from employees	16	9
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial		

nature	335	310
Non-hedging derivatives	4	20
Other short-term financial receivables	11	646
Total	**438**	**1,103**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Financial receivables for lessors net investments refer to:

- Teleleasing lease contracts directly negotiated with customers and of which Telecom Italia is the guarantor;

- Short-term portion of rent contracts, with the rendering of accessory services under the full rent formula.

Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature mainly consist of accrued income on derivative contracts. Further details are provided in the Note Derivatives .

Note 15 Cash and cash equivalents

Cash and cash equivalents increased 22 million euros compared to December 31, 2009. Details are as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Liquid assets with banks, financial institutions and post offices	4,264	4,613

Checks, cash and other receivables and deposits for cash flexibility	3	1
Securities other than investments (due within 3 months)	1,259	890
Total	**5,526**	**5,504**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The different technical forms used for the investment of liquidity as of December 31, 2010 can be analyzed as follows:

.

maturities: all deposits have a maximum maturity date of three months;

.

counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least A- with regard to Europe and with leading local counterparts relating to investments in South America;

.

country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 215 million euros (20 million euros at December 31, 2009) of euro commercial paper, maturing within 3 months, with an A- rating of the issuer by S&P s, and 1,028 million euros (857 million euros at December 31, 2009) of Brazilian certificates of deposit (*Certificado de Depósito Bancário*) with maturities within 3 months, from leading local banking and financial institutions.

Note 16 Discontinued operations/Non-current assets held for sale

The investment in EtecSA (Cuba) was classified in Non-current assets held for sale. The sale was finalized on January 31, 2001. Further details are provided in the Note Events subsequent to December 31, 2010 to the Telecom Italia Group consolidated financial statements.

The BBNed group and the company Elettra, which in the half-year financial report at June 30, 2010 of the Telecom Italia Group had been considered disposal groups, were sold on October 5, and September 30, 2010, respectively.

At December 31, 2009, the financial position, economic and cash flow figures of HanseNet Telekommunikation GmbH, sold in the first quarter of 2010, had been reclassified to Discontinued operations/Non-current assets held for sale .

Disposals in 2010

HanseNet Telekommunikation GmbH

On February 16, 2010, the disposal of HanseNet Telekommunikation GmbH to the Telefónica group was finalized after having obtained the necessary authorizations from the competent authorities. HanseNet is an operator in the retail broadband market in Germany and a wholly-owned subsidiary of Telecom Italia S.p.A. through its holding Telecom Italia Deutschland Holding GmbH. The consideration received on the sale was based on an Enterprise Value of 900 million euros.

The estimated economic impact of the sale, based on an enterprise value, had been recorded in full in the consolidated financial statements at December 31, 2009. Specifically, the transaction had produced a negative impact on the 2009 consolidated net result of 597 million euros, including the goodwill impairment loss on the company for 558 million euros. In 2010, a further provision charge was recorded for 5 million euros.

The transaction was described in detail in the consolidated financial statements at December 31, 2009 of the Telecom Italia Group to which reference can be made for additional information.

BBNed group

On October 5, 2010, consistently with course of action focusing on the core markets and after obtaining authorization from the competent authorities, the investment in the BBNed group (provider of fixed line services in the Netherlands), consisting of the parent, BBNed N.V., and its two subsidiaries, BBeyond B.V. and InterNLnet B.V. was sold to the company Tele 2 AB. The consideration received on the sale was 47 million euros, inclusive of the net financial debt sold.

Elettra

On September 30, 2010, Telecom Italia Sparkle, in line with the objective of the Parent, Telecom Italia, to reposition itself on the core businesses, sold the investment held in Elettra, a company operating in the sector of surveying, laying and maintaining submarine telecommunications cables and in the sectors of energy and oil&gas, to Atlas Services Belgium S.A.. The total proceeds received on the sale was 35 million euros, inclusive of the proceeds on the sale of one of ships owned by the company and the subsequent sale of the investment itself, net of the relative cash sold.

***

In the consolidated statement of financial position at December 31, 2010, Discontinued operations/Non-current assets held for sale includes the value of the investment in EtecSA (Cuba) for an amount of 389 million euros. In 2009, Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale referred solely to HanseNet:

(millions of euros)	**12/31/2010**	**12/31/2009**
Discontinued operations/ Non-current assets held for sale:		
of a financial nature	-	81
of a non-financial nature	389	1,152
Total		

	389	**1,233**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale:		
of a financial nature	-	659
of a non-financial nature	-	308
Total	**-**	**967**

The **assets of a financial nature** are detailed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**

Non-current financial assets	
	-
	-
Current financial assets	
	-
	81
Total	
	-
	81

The **assets of a non-financial nature** are detailed as follows:

(millions of euros)	
	12/31/2010
	12/31/2009

Non-current assets	
389	
980	
Current assets	
-	
172	
Total	
389	
1,152	

The **liabilities of a financial nature** are detailed as follows:

(millions of euros)	
12/31/2010	
12/31/2009	

Non-current financial liabilities	-	203
Current financial liabilities	-	456
Total	-	**659**

The **liabilities of a non-financial nature** are detailed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**

Non-current liabilities	
-	39
Current liabilities	
-	269
Total	
-	**308**

***

The impact of the components of Discontinued operations/Non-current assets held for sale on the separate consolidated income statement can be represented as follows:

(millions of euros)

	2010	2009
Economic impact of components of Discontinued operations/Non-current assets held for sale on separate consolidated income statement:		
Revenues		1,161
Other income		

	2
Operating expenses	(898)
Amortization and depreciation, gains (losses) and impairment losses on non-current assets	(271)
Impairment loss on HanseNet goodwill	(558)
EBIT	**-**
	(564)
Finance income (expenses)	(24)
Loss before tax from Discontinued operations/Non-current	

assets held for sale

-

(588)

Income tax expense

7

Loss after tax from Discontinued operations/Non-current assets held for sale

(a)

-

(581)

Economic effect on the selling companies:

Accruals made in respect of Discontinued operations/Non-current assets held for sale

(7)

(41)

(b)

(7)

(41)

Loss from Discontinued operations/Non-current assets held for sale

(a+b)

(7)

(622)

Since EtecSA (Cuba) does not constitute an important autonomous business segment, the impact connected with the measurement of the investment was not shown separately in the separate consolidated income statement.

The economic impact on the separate consolidated income statement refers to the following companies sold:

(millions of euros)	**2010**	**2009**
HanseNet	(5)	(620)
Gruppo Buffetti		

(2)

(2)

Total

(7)

(622)

In the statement of cash flows, cash flows relating to Discontinued operations/Non-current assets held for sale in 2009 referred exclusively to HanseNet, as follows:

(millions of euros)	**2010**	**2009**
Cash flows from operating activities	-	211
Cash flows from investing activities		

	-
	(144)
Cash flows from financing activities	
	-
	(6)
Total	
	-
	61

Note 17 Equity

Equity includes:

(millions of euros)	12/31/2010	12/31/2009
Equity attributable to owners of the Parent	28,819	25,952
Equity attributable to Non-controlling interests	3,791	1,168
Total	**32,610**	**27,120**

The composition of the **Equity attributable to owners of the Parent** is the following:

(millions of euros)	12/31/2010	12/31/2009
Share capital of the Parent (net of treasury shares held by the Group)	10,600	10,585
Paid-in capital	1,697	1,689
Sundry reserves and retained earnings		

(accumulated losses), including profit for the year:	16,522	13,678
Reserve for available-for-sale financial assets	(7)	(4)
Reserve for cash flow hedges	(284)	(494)
Reserve for exchange differences on translating foreign operations	1,401	983

Other gains (losses) of associates and joint ventures accounted for using the equity method
(1)
(110)

Other reserves and retained earnings (accumulated losses), including profit for the year
15,413
13,303

Total
28,819
25,952

Movements in **Share capital** during 2010 are presented in the following tables:

Reconciliation between the number of shares outstanding at

December 31, 2009 and December 31, 2010

(number of shares at par value of 0.55 euros)

	at 12/31/2009	Shares issued for plans destined for employees	**at 12/31/2010**	% of share capital
Ordinary shares issued (a)	13,380,906,939			

27,056,139

13,407,963,078

68.99

less: treasury shares

(b)

(162,216,387)

-

(162,216,387)

Ordinary shares outstanding

(c)

13,218,690,552

27,056,139

13,245,746,691

Savings shares issued and outstanding

(d)

6,026,120,661

-

6,026,120,661

31.01

Total Telecom Italia S.p.A. shares issued

(a+d)

19,407,027,600

27,056,139

19,434,083,739

100.00

Total Telecom Italia S.p.A. shares outstanding

(c+d)

19,244,811,213

27,056,139

19,271,867,352

Reconciliation between the value of shares outstanding at December 31, 2009 and December 31, 2010

(millions of euros)

Share capital at 12/31/2009
Change in share capital as a result of plans destined for employees
Share capital at 12/31/2010

Ordinary shares issued

(a)

7,360

15

7,375

less: treasury shares

(b)

(89)

-

(89)

Ordinary shares outstanding

(c)

7,271

15

7,286

-

Savings shares issued and outstanding

(d)

3,314

-

3,314

-

Total Telecom Italia S.p.A. shares capital issued

(a+d)

10,674

15

10,689

Total Telecom Italia S.p.A. shares capital outstanding

(c+d)

10,585

15

10,600

Share capital increased 15 million euros due to the effect of the Broad-based Employee Share Ownership Plan 2010-2014 , approved by the Telecom Italia S.p.A. shareholders meeting held on April 29, 2010.

Further details are provided in the following paragraphs and in the Note Equity compensation plans .

The total amount of ordinary treasury shares at December 31, 2010 is 508 million euros and recorded as follows: the part relating to par value (89 million euros) is recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves.

***

Share capital information

The Telecom Italia S.p.A. ordinary and savings shares 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.

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), taking care to minimize the refinancing risk.

The remuneration of risk capital 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 distribution of which is approved by the shareholders meeting, 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;

.

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.

***

Paid-in capital totals 1,697 million euros, increasing 8 million euros compared to December 31, 2009 following the capital increase to service the Broad-based Employee Share Ownership Plan 2010-2014 , approved by the Telecom Italia S.p.A. shareholders meeting held on April 29, 2010

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 7 million euros at December 31, 2010, decreasing 3 million euros compared to December 31, 2009. It includes unrealized losses relating to the investment in Assicurazioni Generali (-2 million euros) and the investment in Fin.Priv. (-1 million euros) by the Parent, Telecom Italia, as well as the unrealized losses on the securities portfolio of Telecom Italia Finance (-13 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (9 million euros). This reserve is expressed net of deferred tax liabilities of 3 million euros (at December 31, 2009, it was expressed net of deferred tax liabilities of 2 million euros).

.

The **Reserve for cash flow hedges** shows a negative balance of 284 million euros at December 31, 2010, increasing 210 million euros compared to December 31, 2009. This reserve is expressed net of deferred tax assets of 106 million euros (at December 31, 2009, it was expressed net of deferred tax liabilities of 183 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 1,401 million euros at December 31, 2010, increasing 418 million euros compared to December 31, 2009. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit and in the Argentina Business Unit; starting from the end of 2010, the reserve also includes the negative portion relating to the investment in EtecSA (Cuba) previously included in Other gains (losses) of associates and joint ventures accounted for using the equity method .

.

Other gains (losses) of associates and joint ventures accounted for using the equity method show a negative balance of 1 million euros at December 31, 2010, increasing 109 million euros compared to December 31, 2009, mainly as a result of the reclassification to the Reserve for exchange differences on translating foreign operations of the reserve for negative exchange differences relating to the investment in EtecSA (Cuba) which was classified in Non-current assets held for sale.

.

Other reserves and retained earnings (accumulated losses), including profit for the year amount to 15,413 million euros, increasing 2,110 million euros compared to December 31, 2009. The change is mainly due to the sum of the following:

-

dividends of 1,029 million euros (1,029 million euros in 2009);

-

the profit for the year attributable to owners of the Parent, equal to 3,121 million euros (1,581 million euros in 2009).

Equity attributable to Non-controlling interests amounts to 3,791 million euros, increasing 2,623 million euros compared to December 31, 2009, and is represented by the sum of:

-

dividends (-135 million euros);

-

the profit for the year attributable to Non-controlling interests of +451 million euros (+15 million euros in 2009);

-

the positive change in the Reserve for exchange differences on translating foreign operations (+262 million euros);

-

the positive effect of the consolidation of companies in the Argentina Business Unit for +2,003 million euros;

-

the positive effect of the Telecom Italia Media capital transaction for +44 million euros.

The line item consists principally of the equity attributable to the Non-controlling interests referring mainly to the companies in the Brazil Business Unit, the Argentina Business Unit and the Media Business Unit.

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 and other compensation plans still outstanding at December 31, 2010:

	Number of maximum

	shares issuable
	Nominal value (thousands of euros)
	Paid-in capital (thousands of euros)
	Subscription price per share (euros)
Additional capital increases not yet approved (ord. sh.)	
Broad-based Employee Share Ownership Plan 2010-2014 (bonus capital increase)	9,018,713
	4,960
	-

-

Long Term Incentive Plan 2010-2015

(reserved capital increase)

n.a.

(*)

5,000

(*)

n.a.

(*)

n.a.

(*)

Long Term Incentive Plan 2010-2015

(bonus capital increase)

n.a.

(**)

5,000

(**)

-

-

Shareholders resolution of April 8, 2009

1,600,000,000

880,000

n.a.
n.a.
Total additional capital increases not yet approved (ord. sh.)
894,960

(*) A number of ordinary shares can be issued that can be subscribed for a total maximum equivalent amount (including paid-in capital) of 5,000,000 euros, with the subscription price determined by the board of directors;

(**) A number of ordinary shares can be issued for the number needed to assign a bonus share for every share subscribed, up to a maximum amount of 5,000,000 euros.

Further details on Stock option plans are provided in the Note Equity compensation plans .

With regard to the additional capital increases not yet approved, the following is noted.

The shareholders meeting held on April 29, 2010 granted the directors the right to increase share capital for five years from April 29, 2010 as follows:

.

to service the Broad-based Employee Share Ownership Plan 2010-2014 , as approved by the shareholders meeting held on April 29, 2010, (i) against payment, through the issue of a maximum of 31,000,000 new ordinary shares of par value 0.55 euros each, and thus for a par value not in excess of 17,050,000 euros, with normal dividend rights, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, to be offered for subscription to the employees who are beneficiaries under the Broad-based Employee Share Ownership Plan 2010-2014 , and subsequently (ii) for a maximum amount of 5,683,333.15 euros through distribution of a corresponding maximum amount of profits in accordance with art. 2349 of the Italian Civil Code, with the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, in the number necessary to allot a bonus share for every three shares subscribed to against payment as above by the employees who are beneficiaries of the Employee Stock Ownership Plan 2010-2014 subject to meeting the conditions within the timeframe and according to the manner established therein;

.

to service the Long Term Incentive Plan 2010-2015 , as approved by the shareholders meeting held on April 29, 2010, (i) against payment, through the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, for a maximum amount of 5,000,000 euros, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, to be offered for subscription to the employees who are beneficiaries under the Long Term Incentive Plan 2010-2015 , and subsequently (ii) for a maximum amount of 5,000,000 euros through distribution of a corresponding maximum amount of profits in accordance with art. 2349 of the Italian Civil Code, with the issue of new ordinary shares for a par value of 0.55 euros each, with normal dividend rights, in the number necessary to allot a bonus share for every share subscribed to against payment as above by the employees who are beneficiaries of the Long Term Incentive Plan 2010-2015 subject to meeting the conditions within the timeframe and according to the manner established therein;

As regards the share capital increase against payment, the board of directors shall fix the share issue price (including paid-in capital) in conformity with the provisions of the Broad-based Employee Share Ownership Plan 2010-2014 and the Long Term Incentive Plan 2010-2015 and shall also fix the period for their subscription, establishing that, if the approved capital increase is not fully subscribed to within that period, the share capital shall be increased for an amount equal to the subscriptions received up to the end of that period.

In reference to the Broad-based Employee Share Ownership Plan 2010-2014 , on May 6, 2010, the board of directors, by the power granted to it by the special shareholders meeting held on April 29, 2010, passed a resolution to increase against payment, divisible, pursuant to art. 2443 of the Italian Civil Code and according to the provisions of art. 2441, paragraph 8 of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, share capital for a maximum par value of 17,050,000 euros, through the issue of a maximum of 31,000,000 new ordinary shares of par value 0.55 euros each, at an issue price equal to the average market prices of the last month preceding the offering discounted by 10%, to be reserved for subscription by beneficiaries of the Broad-based Employee Share Ownership Plan 2010-2014 , establishing that, where the share capital has not been fully subscribed to by the end of the offering period, in any case not later than September 30, 2010, the capital shall be increased for an amount equal to the subscriptions received by that date.

On June 16, 2010, the criteria for the calculation of the subscription price and the subscription period were defined.

The subscription price was defined as the arithmetic mean of the share trading prices of the Company s ordinary shares recorded between May 25, 2010 and June 25, 2010 on the Mercato Telematico Azionario (Electronic Stock Market) organized and operated by Borsa Italiana S.p.A.. It was calculated using as the divisor only the days which refer to the listed prices taken as the basis for the calculation, discounted by 10%, up to the second digit after the decimal point (hundredths of a euro).

The precise subscription price, equal to 0.84 euros per share, was communicated by means of a notice published on the Group intranet on the evening of June 25, 2010.

The subscription period for the discounted offer of ordinary shares went from June 28, to July 9, 2010 and, following this operation, 27,056,139 ordinary shares were issued on July 29, 2010, bringing the total number of Telecom Italia ordinary shares issued to 13,407,963,078. Accordingly, at that date, the maximum quantity of shares issuable with the relative bonus share capital increase went from 10,333,333 to 9,018,713 ordinary shares, for a par value equal to 4,960 thousand euros.

The shareholders meeting held on April 8, 2009 granted the directors the power (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,

(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, paragraph 2, 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 period 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 within that period set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to end of that period.

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.

As of the date of December 31, 2010, Telecom Italia S.p.A. holds 37,672,014 treasury shares, of which 25,000,000 were purchased to service the plan for granting bonus Telecom Italia S.p.A. ordinary shares to resources 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, and of which 11,400,000 ordinary shares were purchased 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 same treasury share buyback program.

As of the date of December 31, 2010, 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, when the bankruptcy of the Lehman Brothers group was announced, 99,936,853 Telecom Italia S.p.A. ordinary shares had been held in custody with Lehman Brothers International Europe (LBIE) according to the provisions of a custody contract. Owing to the complexity of the wind-up procedure, only on April 28, 2010 were these shares returned by LBIE to Telecom Italia Finance, with the payment of a fee of 0.75% of the value of the assets for 0.8 million euros. During the same month of April 2010, also collected were the dividends distributed during 2009, relating to the same shares, for a gross amount of euros 5 million, subjected to withholding taxes.

***

On the basis of the motion put forward by the board of directors meeting held on February 24, 2011, the profit for the year 2010 shown in the financial statements of the Parent, Telecom Italia S.p.A. shall be appropriated as dividends for 1,192 million euros for distribution to the shareholders as follows:

- 0.058 euro for each ordinary share
- 0.069 euro for each savings share

gross of withholdings as established by law; undistributed profit will be appropriated to retained earnings.

Note 18 Financial liabilities (current and non-current)

Financial liabilities are composed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Financial payables (medium/long-term):		
Bonds	24,589	26,369
Convertible bonds	-	-
	24,589	**26,369**
Amounts due to banks	5,501	5,308
Other financial payables		

	503
	431
	30,593
	32,108
Finance lease liabilities (medium/long-term)	
	1,442
	1,565
Other financial liabilities (medium/long-term):	
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	
	2,238
	3,075
Non-hedging derivatives	
	74
	45
Other liabilities	
	1
	4
	2,313
	3,124
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**(a)**

	34,348	**36,797**
Financial payables (short-term):		
Bonds	4,989	3,086
Convertible bonds	-	581
	4,989	**3,667**
Amounts due to banks	873	2,246
Other financial payables	517	311
	6,379	**6,224**
Finance lease liabilities (short-term)	**232**	**250**

Other financial liabilities (short-term):		
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	269	442
Non-hedging derivatives	2	24
Other liabilities	-	1
	271	**467**
TOTAL CURRENT FINANCIAL LIABILITIES (b)	**6,882**	**6,941**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale (c)	**-**	**659**
TOTAL FINANCIAL LIABILITIES (d) = (a+b+c)		

41,230
44,397

Bonds are composed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Non-current portion	24,589	26,369
Current portion	4,989	3,086
Total carrying amount	**29,578**	**29,455**
Fair value adjustment and measurement at amortized cost	(1,249)	(923)

	Total nominal repayment amount
	28,329
	28,532

The nominal repayment amount totals 28,329 million euros, decreasing 203 million euros compared to December 31, 2009 (28,532 million euros): although the repayments were higher than the amount of new issues, the basic stability of the nominal amount of the bonds is due to their valuation at different exchange rates (mostly the USD/euro). This phenomenon shows the opposite sign under Hedging derivatives .

The following table lists the bonds issued by companies of the Telecom Italia Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

	Currency	Amount (millions)	Nominal repayment amount (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/10 (%)	Market value at 12/31/10 (millions of euros) (**)
Bonds issued by Telecom Italia S.p.A.									

Euro	750	750	4.500%	1/29/04	1/28/11	99.560	100.226	752
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	104.448	1,306
Euro	1,000	1,000	3-month Euribor + 0.53%					

12/6/05

12/6/12

100

98.503

985

Euro

650

650

6.750%

3/19/09

3/21/13

99.574

108.150

703

Euro

500

500

3-month
Euribor +
0.63%

7/19/07

7/19/13

100

97.478

487

Euro

500

500

7.875%

1/22/09

1/22/14

99.728

113.171

566

Euro

673

673

4.750%

5/19/06

5/19/14

99.156

104.453

703

Euro

120

120

3-month
Euribor +
0.66%

11/23/04

11/23/15

100

93.977

113

GBP

500

581

5.625%

6/29/05

12/29/15

99.878

101.143

588

Euro

850

850

8.250%

3/19/09

3/21/16

99.740

117.309

997

Euro

400

400

3-month
Euribor +
0.79%

6/7/07

6/7/16

100

92.925

372

GBP

750

871

7.375%

5/26/09

12/15/17

99.608

108.723

947

Euro

1,250

1,250

5.375%

1/29/04

1/29/19

99.070

103.301

1,291

GBP

850

988

6.375%

6/24/04

6/24/19

98.850

99.630

984

Euro

305

305

6-mo.
Euribor
(base 365)

1/1/02

1/1/22

100

100

305

Euro

1,250

1,250

5.25%

2/10/10

2/10/22

99.295

96.577

1,207

GBP

400

465

5.875%

5/19/06

5/19/23

99.622

91.971

427

Euro

670

670

5.250%

3/17/05

3/17/55

99.667

75.269

504

Subtotal

13,073

13,237

Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.

Euro

1,884

1,884

(a) 7.500%

4/20/01

4/20/11

99.214

101.663

1,915

Euro

108

108

3-month Euribor + 1.30%

3/12/10

3/14/12

100

100.268

108

Euro

1,000

1,000

7.250%

4/24/02

4/24/12

(*) 101.651

106.593

1,066

Euro

850

850

6.875%

1/24/03

1/24/13

99.332

107.891

917

JPY

20,000

184

3.550%

4/22/02

5/14/32

99.250

99.937

184

Euro

1,015

1,015

7.750%

1/24/03

1/24/33

(*) 109.646

106.898

1,085

Subtotal

5,041

5,275

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.

USD

400

299

3-month US Libor + 0.48%

9/28/05

2/1/11

100

99.997

299

USD

850

636

3-month US Libor + 0.61%

7/18/06

7/18/11

100

100.034

636

USD

750

561

6.200%

7/18/06

7/18/11

99.826

102.338

574

USD

2,000

1,497

5.250%

10/29/03

11/15/13

99.742

103.924

1,556

USD

1,000

748.4

6.175%

6/18/09

6/18/14

100

106.270

795

USD

1,250

935

4.950%

10/6/04

9/30/14

99.651

101.891

953

USD

1,400

1,048

5.250%

9/28/05

10/1/15

99.370

102.125

1,070

USD

1,000

748.4

6.999%

6/4/08

6/4/18

100

107.102

802

USD

1,000

748.4

7.175%

6/18/09

6/18/19

100

108.023

808

USD

1,000

748.4

6.375%

10/29/03

11/15/33

99.558

85.860

643

USD

1,000

748.4

6.000%

10/6/04

9/30/34

99.081

81.940

613

USD

1,000

748.4

7.200%

7/18/06

7/18/36

99.440

93.626

701

USD

1,000

748.4

7.721%

6/4/08

6/4/38

100

	98.677
	738
Subtotal	
	10,215
	10,188
Total	
	28,329
	28,700

Note (a): See the following paragraph Mechanism describing how coupons change on step-up/step-down bonds .

(*) Weighted average issue price for bonds issued with more than one tranche.

(**) The fair value of the above-listed bonds represents their market value. Using the same measurement method as in 2009 or excluding the Telecom Italia credit quality component the fair value of such instruments would be 4,719 million euros higher (5,090 million euros at the nominal repayment amount).

The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website http://www.telecomitalia.com.

The following table lists the changes in bonds during 2010:

New issues

(millions of original currency)	**currency**	**amount**	**issue date**
Telecom Italia Finance S.A. 107.7 million euros Floating Rate Notes 3-month Euribor + 1.3% maturing 3/14/2012 (1)	Euro	107.715	3/12/2010
Telecom Italia S.p.A. 1,250 million euros 5.25% maturing 2/10/2022	Euro	1,250	2/10/2010

(1) These bonds were issued as a result of the contract terms

established by the existing bonds denominated Telecom Italia Finance S.A. Euro 118,830,000 Guaranteed Floating Rate Extendable Notes due 2010 , net of 20 million euros repurchased by the Company in 2009. Under the Terms and Conditions, the holders of the bonds for a nominal amount of 31,115,000 euros waived their right to extend the bonds maturity to 2012 and were reimbursed for that amount on June 14, 2010. For the remaining amount of 107,715,000 euros, bonds were issued on March 12, 2010 denominated Telecom Italia Finance S.A. Euro 107,715,000 Guaranteed

Floating Rate Extendable Notes due 2012 maturing on March 14, 2012.

Repayments

(millions of original currency)	**currency**	**amount**	**repayment date**
Telecom Italia Capital S.A. 4.875% 700 million dollars, issued with a guarantee from Telecom Italia S.p.A.	USD	700	10/1/2010
Telecom Italia Finance Floating Rate Notes 138.83 million euros 3-month Euribor + 1.30% (2)	Euro	138.83	6/14/2010

Telecom Italia S.p.A. Floating Rate Notes 796 million euros 3-month Euribor + 0.20% (3)	Euro	796	6/7/2010
Telecom Italia Capital S.A. 4% 1,250 million dollars, issued with a guarantee from Telecom Italia S.p.A.	USD	1,250	1/15/2010
Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium	Euro	574	1/1/2010

(2) These bonds were repaid as a result of the contract terms established by the existing bonds

denominated Telecom Italia Finance S.A. Euro 118,830,000 Guaranteed Floating Rate Extendable Notes due 2010 , net of 20 million euros repurchased by the Company in 2009. Under the Terms and Conditions, the holders of the bonds for a nominal amount of 31,115,000 euros waived their right to extend the bonds maturity to 2012 and have been reimbursed for that amount on June 14, 2010. For the remaining amount of 107,715,000 euros, bonds have been issued on March 12, 2010 denominated Telecom Italia Finance S.A. Euro 107,715,000 Guaranteed Floating Rate Extendable Notes due 2012 maturing on March 14, 2012.

(3) Net of 54 million euros bought back by the company during 2009.

Buybacks

(millions of original currency)	**currency**	**amount**	**buyback period**
Telecom Italia Finance S.A. 1,884 million euros 7.50% maturing April 2011 (*)	Euro	113.432	January May 2010

(*) In October 2009, an amount of 2.683 million euros was already bought back. The total amount bought back in 2009 and 2010 is therefore 116.115 million euros.

Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating

TI Finance S.A. bonds - **Euro Notes : 1,884 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, the coupon has not been increased since 2008, when the rate was set at 7.50%.

Changes in Telecom Italia s ratings

During the course of 2010, the three rating agencies - Standard & Poor s, Moody s and Fitch Ratings confirmed their ratings of Telecom Italia.

	Rating	**Outlook**
STANDARD & POOR'S	BBB	Stable
MOODY'S	Baa2	Stable
FITCH RATINGS	BBB	Stable

Convertible bonds

As established in the Regulations, bond conversions requests have been regularly presented during the bond period, starting from January 22, 2002 up to December 15, 2009, and the relative shares were 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, have been reimbursed on January 1, 2010, with a one-time payment made on January 4, 2010.

(millions of euros)	**12/31/2010**	**12/31/2009**
Non-current portion	-	
Current portion	581	
Total carrying amount	**-**	**581**
Measurement at amortized cost	(7)	

Total nominal repayment amount
-
574

Financial covenants / other covenants / other features of convertible bonds

The bonds listed do not contain financial covenants (e.g. ratios such a 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").

Medium/long-term **amounts due to banks** total 5,501 million euros (5,308 million euros at December 31, 2009), increasing 193 million euros.

Short-term amounts due to banks total 873 million euros, decreasing 1,373 million euros (2,246 million euros at December 31, 2009); in particular, in January 2010, the syndicated credit line denominated Term Loan 2010 for 1.5 billion euros became due and was repaid from cash resources. Short-term amounts due to banks include 512 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term **other financial payables** amount to 503 million euros (431 million euros at December 31, 2009). They include 188 million euros of the Telecom Italia Finance S.A. loan for 20,000 million Japanese yen due in 2029 and 249 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 517 million euros (311 million euros at December 31, 2009) and include 155 million euros of the current portion of medium/long-term other financial payables.

At December 31, 2010, other financial payables include 183 million euros (of which 51 million euros is medium/long-term and 132 million euros is the current portion) relating to Preferred Shares Serie A of Nortel Inversora S.A.. These are preferred shares regulated by Argentine law, without voting rights except for specific cases stated in the relative issue conditions, repayable at pre-determined maturities according a pre-established repayment plan. The shares are remunerated and have the right, among other things, to a base annual cumulative yield, calculated as a fixed percentage of the subscription value net of repayments already made, regardless of the results for the year reported by Nortel Inversora S.A.. Because of their features, the Preferred Shares Serie A of Nortel Inversora S.A. are considered liabilities of a financial nature pursuant to IFRS adopted by the Telecom Italia Group.

Medium/long-term **finance lease liabilities** total 1,442 million euros (1,565 million euros at December 31, 2009) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 232 million euros (250 million euros at December 31, 2009).

Hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 2,238 million euros (3,075 million euros at December 31, 2009). Hedging derivatives relating to items classified as current liabilities of a financial nature total 269 million euros (442 million euros at December 31, 2009). Further details are provided in the Note Derivatives .

Non-hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 74 million euros (45 million euros at December 31, 2009). Non-hedging derivatives relating to items classified as current liabilities of a financial nature total 2 million euros (24 million euros at December 31, 2009). These 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 two Revolving Credit Facilities (RCF): one is a syndicated credit line expiring August 2014 for 8 billion euros, of which 1.5 billion euros is drawn down, and the other is a syndicated credit line expiring February 2013 for 1.25 billion euros, not drawn down.

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2010		12/31/2009	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD	14,196	10,624	16,296	11,312
GBP	2,531	2,940		

	2,527	
	2,845	
BRL		
	2,682	
	1,205	
	3,177	
	1,267	
JPY		
	20,834	
	192	
	30,548	
	229	
ARS		
	973	
	183	
	-	
	-	
PYG		
	186,914	
	31	
	-	
	-	
EURO		
	26,055	

28,085

41,230

43,738

Discontinued Operations

-

659

41,230

44,397

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

(millions of euros)

12/31/2010

12/31/2009

Up to 2.5%	6,520	5,424
From 2.5% to 5%	4,240	6,018
From 5% to 7.5%	20,306	21,953
From 7.5% to 10%	5,064	4,564
Over 10%	1,002	1,073
Accruals/deferrals, MTM and derivatives	4,098	4,706
	41,230	**43,738**
Discontinued Operations	-	

	659
	41,230
	44,397

Instead, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euros)	**12/31/2010**	**12/31/2009**
Up to 2.5%	11,714	5,839
From 2.5% to 5%	6,236	14,763
From 5% to 7.5%	15,969	13,910
From 7.5% to 10%	1,995	

		3,802
Over 10%	1,218	718
Accruals/deferrals, MTM and derivatives	4,098	4,706
	41,230	**43,738**
Discontinued Operations	-	659
	41,230	**44,397**

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Detail of the maturities of Financial liabilities nominal repayment amount:
maturing by 12/31/ of the year:
(millions of euros)
2011
2012
2013
2014
2015
After 2015
Total

Bonds	
	4,131
	3,358
	3,497
	2,857
	1,748
	12,738
	28,329
Loans and other financial liabilities	
	718
	523
	1,151
	2,380
	931
	1,820
	7,523
Finance lease liabilities	
	216
	151
	169

146

128

848

1,658

Total

5,065

4,032

4,817

5,383

2,807

15,406

37,510

Current financial liabilities

725

-

-

-

-

-

725

Total

5,790

4,032

4,817

5,383

2,807
15,406
38,235

Note 19 Net financial debt

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2010 and December 31, 2009 calculated in accordance with the criteria indicated in the Recommendation of CESR (*Committee of European Securities Regulators*) dated February 10, 2005 *Recommendations for the Uniform Implementation of the European Commission Regulation on Disclosures* and also introduced by Consob itself.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also includes the reconciliation of net financial debt determined according to the criteria indicated by CESR and net financial debt calculated according to the criteria of the Telecom Italia Group and presented in the Report on Operations.

-

Covenants and negative pledges relating to outstanding positions at December 31, 2010

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,052 million euros (out of a total of 2,658 million euros at December 31, 2010) 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 (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract. The same clause applies to two loan contracts signed between the EIB and Telecom Italia S.p.A. on July 17, 2006 and on November 30, 2007 for a total principal amount of 332,200,000.00 euros, in which the EIB also has the right to rescind from the contract under ex. art. 1456 of the Italian Civil Code (demanding repayment of the loan and payment of an indemnity) should Telecom Italia S.p.A. cease to hold, directly or indirect, more than 50% of the voting rights in the ordinary shareholders meeting of HanseNet Telekommunikation GmbH Germany or, in any case, a number of shares such as to represent more than 50% of its share capital. Following the sale of HanseNet on February 16, 2010, the Group decided to voluntarily repay the loan of 182,200,000.00 euros stipulated on November 30, 2007, of which 40,000,000.00 euros had already been repaid on June 18, 2010 while the remaining 142,200,000.00 euros was repaid on September 30, 2010. The loan of 150,000,000.00 euros will remain outstanding until its natural due date of July 2014;

.

for all loans not secured by collateral, if the Company s rating of unsubordinated and unsecured medium/long-term debt is lower than BBB for Standard &Poor s, Baa2 for Moody s and BBB for Fitch Ratings, the company shall immediately inform the 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, the EIB shall have the right to demand immediate repayment of the amount disbursed. The current ratings did not require new guarantees or repayments of loans.

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 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.

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.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control:

.

Multi-currency revolving credit facility (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and Telecom Italia shall be held to repay any sum disbursed (currently equal to 1,500,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories.

.

Revolving credit facility (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and envisages a discipline similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders agreement. Therefore, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.), with the provisions described above remaining unchanged.

.

Revolving credit facility (200,000,000 euros). The agreement was signed between Telecom Italia and Unicredit S.p.A. on December 20, 2010 and envisages a discipline basically identical to that of the February 12, 2010 credit facility. The amount disbursed is currently 120,000,000 euros;

.

Bonds. The regulations covering the bonds issued under the Telecom Italia EMTN Programme by both Telecom Italia and Olivetti provide that, in the event of mergers or transfer of all or substantially all of the assets of the issuing company or the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default.

.

Contracts with the European Investment Bank (EIB). The contracts signed by Telecom Italia with the EIB, for a total maximum amount of approximately 2.65 billion euros, carries the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall 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 loan project.

.

Export Credit Agreement (residual nominal amount of 63 million euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change in control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due.

Finally, 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.

Finally, as of December 31, 2010, no covenant, 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 definition, at a central level, of guidelines for directing operations;

.

the activity of an internal committee which monitors 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 achieved;

.

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, hedging exchange rate risk in full 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 composition for fixed-rate and variable-rate debt and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group s operating activities, the optimum combination 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 variable-rate component.

In managing market risk, the Group has 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 variable;

.

Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than 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 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 pre-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.

The exposure to the various market risks can be measured by sensitivity analyses, as set forth in 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, 2010, assuming that such amounts are representative of the entire year.

.

The exchange risk of the Group s loans denominated in currencies other than 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, in accordance with IAS 39, they are accounted for at their fair value. 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 variable-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.

Exchange rate risk Sensitivity analysis

At December 31, 2010 (as at December 31, 2009), the exchange risk of the Group s loans denominated in currencies other than the currency of the financial statements of the individual companies was hedged in full. For this reason, a sensitivity analysis has not been performed on the exchange risk.

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 derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (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 of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

.

if at December 31, 2010 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 75 million euros (77 million euros at December 31, 2009).

Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-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 just 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 variable rate.

TOTAL FINANCIAL LIABILITIES (at the nominal repayment amount)

	12/31/2010			12/31/2009		
(millions of euros)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	17,632	10,697	28,329	17,999	10,533	

	28,532
Convertible bonds	
	-
	-
	-
	574
	-
	574
Loans and other financial liabilities	
	6,166
	3,015
	9,181
	6,941
	4,843
	11,784
Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	
	23,798
	13,712
	37,510
	25,514
	15,376
	40,890

Total current financial liabilities (*)
31
694
725
107
370
477
Total (**)
23,829
14,406
38,235
25,621
15,746
41,367

(*) At December 31, 2010, variable-rate current liabilities include 313 million euros of payables to other lenders for installments paid in advance which are conventionally classified in this line item even though they are not correlated to a definite rate parameter (222 million euros at December 31, 2009).

(**) 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)

12/31/2010
12/31/2009
(millions of euros)

	Fixed rate	**Variable rate**	**Total**	**Fixed rate**	**Variable rate**	**Total**
Cash & cash equivalents	-	4,264	4,264	-	4,614	4,614
Euro commercial paper	-	214				

214

-

20

20

Securities

103

2,262

2,365

31

2,675

2,706

Other receivables

584

133

717

504

737

1,241

Total (*)

687

6,873

7,560

535

8,046

8,581

(*) Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, 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.

TOTAL FINANCIAL LIABILITIES

	12/31/2010		**12/31/2009**	
(millions of euros)	**Adjusted carrying amount**	**Effective interest rate (%)**	**Adjusted carrying amount**	**Effective interest rate (%)**

Bonds	28,131	5.88	28,428	5.87
Convertible bonds	-	-	574	7.42
Loans and other financial liabilities	9,001	4.35	10,030	4.38
Total (*)	**37,132**	**5.51**	**39,032**	**5.51**

(*) Liabilities directly associated with Discontinued operations/Non-current assets held for sale, of a financial nature, are not taken into consideration.

TOTAL FINANCIAL ASSETS

	12/31/2010		**12/31/2009**	
(millions of euros)	**Adjusted carrying amount**	**Effective interest rate (%)**	**Adjusted carrying amount**	**Effective interest rate (%)**
Cash & cash equivalents	4,264	1.19	4,614	

				0.34
Euro commercial paper	214	1.07	20	0.70
Securities	2,365	6.32	2,706	4.02
Other receivables	403	5.02	1,024	4.59
Total (*)	**7,246**	**3.07**	**8,364**	**2.05**

(*) 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, as previously described above, 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

Credit risk represents the Telecom Italia Group s exposure to possible losses arising from the failure of commercial or financial counterparts to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise or from factors more strictly technical, commercial or administrative.

The Telecom Italia Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.

The accruals to the provision for bad debts are recorded for an exact amount on credit positions that present an element of individual risk. On credit positions that do not present such characteristics, accruals are recorded by customer segment on the basis of the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note Trade and miscellaneous receivables and other current assets .

Regarding the credit risk relating to the asset components which contribute to the determination of Net financial debt , it should be noted that the management of the Group s liquidity is guided by conservative 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;

.

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 of the European companies are made with leading high-credit-quality banking and financial institutions with at least an A- rating. Investments by the companies in South America are made with leading local counterparts. Moreover, deposits are made generally for periods of less than three months. As for other temporary investments of liquidity, there are investments in euro commercial paper (the issuers all have an A- rating by S&P s and headquarters in Europe). With regard to bond portfolio management, the issuers have at least a BBB+ by S&P s.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation 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, 2010, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 24 months.

15% of gross financial debt at December 31, 2010 (nominal repayment amount) will become due in the next 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:

Maturities of non-current financial liabilities nominal repayment amount

maturing by 12/31/ of the year:
(millions of euros)
2011
2012
2013
2014
2015
After 2015
Total
Bonds
4,131
3,358
3,497
2,857

	1,748
	12,738
	28,329
Loans and other financial liabilities	
	718
	523
	1,151
	2,380
	931
	1,820
	7,523
Finance lease liabilities	
	216
	151
	169
	146
	128
	848
	1,658
Total	
	5,065
	4,032
	4,817
	5,383

2,807
15,406
37,510

The following table reports the contractual cash flows not discounted to present value relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the conditions and interest and exchange rates prevailing at December 31, 2010. 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 12/31/ of the year:	
(millions of euros)	
	2011
	2012
	2013
	2014
	2015
	After 2015
	Total

Bonds	
Principal	
	4,131
	3,358
	3,497
	2,857
	1,748
	12,738
	28,329
Interest	
	1,626
	1,409
	1,240
	1,030
	889
	8,819
	15,013
Loans and other financial liabilities	
Principal	
	718

523

1,151

2,380

931

1,820

7,523

Interest

75

58

77

13

(35)

(485)

(297)

Finance lease liabilities

Principal

216

151

169

146

128

848

1,658

Interest
106
99
92
85
76
247
705
Non-current financial liabilities (*)
Principal
5,065
4,032
4,817
5,383
2,807
15,406
37,510
Interest
1,807
1,566
1,409
1,128
930
8,581

15,421
Current financial liabilities
Principal
725
-
-
-
-
-
725
Interest
4
-
-
-
-
-
4
Total financial liabilities
Principal
5,790
4,032
4,817

5,383

2,807

15,406

38,235

Interest

1,811

1,566

1,409

1,128

930

8,581

15,425

(*) These include hedging and non-hedging derivatives.

Derivatives on financial liabilities Contractually expected interest flows

maturing by 12/31/ of the year:

(millions of euros)	**2011**	**2012**	**2013**	**2014**	**2015**	**After 2015**	**Total**
Disbursements	852	825	848	692	580	4,854	8,651
Receipts							

(966)

(938)

(908)

(775)

(680)

(5,574)

(9,841)

Hedging derivatives net (receipts) disbursements

(114)

(113)

(60)

(83)

(100)

(720)

(1,190)

Disbursements

-

-

-

-

-

68

68

Receipts

(2)
(1)
-
-
-
-
(3)
Non-hedging derivatives net (receipts) disbursements
(2)
(1)
-
-
-
68
65
Total net (receipts) disbursements
(116)
(114)
(60)
(83)
(100)
(652)
(1,125)

Furthermore, at the beginning of 2011, the Group proceeded to refinance debt as follows:

.

on January 25, 2011, Telecom Italia S.p.A. issued bonds for 1,000 million euros, annual coupon of 5.125%, with maturity on January 25, 2016.

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 and the change in commodity prices and to 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, 2010 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 variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards 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 variable 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, 2010, divided into 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** *(millions of euros)*	**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 184 million euros at 12/31/2010), 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 variable rate in JPY;

- by Telecom Italia Finance S.A., the sale of a swaption exercisable annually, from 2012 to 2031, to hedge the call option embedded in the underlying debt, through which Telecom Italia Finance sold the right to receive a semiannual variable rate in JPY and to receive a fixed rate of 3.55%;

.

by Telecom Italia S.p.A., a CCIRS contract on an intragroup variable-rate loan in JPY, in which Telecom Italia S.p.A. receives 6-month LIBOR in JPY and pays 6-month Euribor.

(4)

CCIRS transactions put into place by Telecom Italia S.p.A. on bonds for a total amount of 2,250 million USD (equivalent amount of 1,684 million euros at 12/31/2010) issued by Telecom Italia Capital S.A. in October 2004 (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.

1,805

(5)

CCIRS transactions put into place by Telecom Italia S.p.A. on bonds for a total amount of 1,800 million USD (equivalent amount of 1,347 million euros at 12/31/2010) issued by Telecom Italia Capital S.A. in September 2005 (5.35-year tranche of 400 million USD and 10-year tranche of 1,400 million USD), converting the coupon fixed rate in USD to the 6-month Euribor.

1,478

(42)

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 1,197 million euros at 12/31/2010) 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
	(52)

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

8

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

15

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

31

CCIRS put into place by Telecom Italia S.p.A. maturing December 2017 on bonds of 750 million GBP (equivalent amount of 871 million euros at 12/31/2010) issued by Telecom Italia S.p.A. in May 2009, converting one component of the coupon rate of 3.64745% to the 3-month Euribor.

851

36

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 270 million euros, converting the coupon rate of 4.25% to the 6-month Euribor.

270

(2)

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

(3)

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

(2)

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

(2)

IRS transactions put into place by Telecom Italia S.p.A. maturing 2015 on BTP government securities in portfolio at 3%, notional amount of 250 million euros, converting the coupon rate of 3% to the 6-month Euribor.

250

(3)

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

1

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

1

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.

1,250

-

CCIRS transactions put into place by Telecom Italia S.p.A. maturing 2012 on BTP government securities in portfolio at 5.625% in USD, notional amount of 100 million USD (equivalent amount of 75 million euros at 12/31/2010) converting the coupon rate of 5.625% to the 6-month Euribor.

	78
	-
Total Fair Value Hedge Derivatives	
	10,968
	(23)

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 *(millions of euros)*	Mark-to-Market (Clean Price) *(millions of euros)*
Commodity swap transactions put into place by Telenergia S.r.l. to hedge monthly purchases of electrical energy from the company EGL Italia S.p.A., expiring December 2011, receiving the variable index (IT Brent Index) and paying 60.16 euros per bbl.	5	1

Commodity swap transactions put into place by Telenergia S.r.l. to hedge monthly purchases of electrical energy from the company EGL Italia S.p.A., expiring December 2011, receiving the variable index (IT Brent Index) and paying 59.90 per bbl.

5

1

Forward purchases in USD by Telecom Italia S.p.A. to hedge quarterly contractual flows expiring by November 2011.

2

-

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 1,497 million euros at 12/31/2010) 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 5.0357% in euros.

1,619

(126)

IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on quarterly variable-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

(7)

CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of 500 million GBP (equivalent amount of 581 million euros at 12/31/2010), 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

(167)

CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2019 on bonds of 850 million GBP (equivalent amount at 12/31/2010 of 988 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

(296)

CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of 400 million GBP (equivalent amount of 465 million euros at 12/31/2010) 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

(153)

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 184 million euros at 12/31/2010). 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

(20)

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 748 million euros at 12/31/2010) 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

(177)

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 748 million euros at 12/31/2010) 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

14

IRS transactions put into place by Telecom Italia S.p.A. maturing July 2013 on quarterly variable-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 748 million euros at 12/31/2010) 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

107

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 748 million euros at 12/31/2010) 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

76

IRS transactions put into place by

Telecom Italia S.p.A. maturing June 2016 on quarterly variable-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

(52)

IRS transactions put into place by Telecom Italia S.p.A. maturing August 2014 on the monthly variable-rate revolving credit facility of 1,500 million euros, converting the 1-month Euribor to a semiannual fixed rate of 4.82583%.

1,500

(162)

IRS transactions put into place by Telecom Italia S.p.A. maturing March 2014 on the semiannual variable-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 variable-rate EIB loan of 400 million euros, converting the 3-month Euribor to a semiannual fixed rate of 5.03388%.

400

(36)

IRS transactions put into place by Telecom Italia S.p.A. maturing December 2013 on the semiannual variable-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 12/31/2010 of 871 million euros) issued by Telecom Italia S.p.A. in May 2009, converting one component of the coupon rate of 3.72755% to a fixed rate of 3.82901% in euros.

851

(12)

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 748 million euros at 12/31/2010) 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

41

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 748 million euros at 12/31/2010) 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

31

Forward starting CCIRS transactions put into place by Telecom Italia S.p.A. starting September 2012 and maturing September 2034 on the 30-year tranche of 1,000 million USD (equivalent amount of 748 million euros at 12/31/2010) on bonds for a total of 2,250 million USD issued by Telecom Italia Capital S.A. in October 2004, converting the semiannual coupon rate of 6% in USD to a fixed annual rate of 4.7316% in euros.

794

65

Total Cash Flow Hedge Derivatives

13,785

(947)

The hedge of cash flows by derivatives designated as Cash Flow Hedges was considered highly effective and at December 31, 2010 led to:

.

recognition in equity of unrealized income for 291 million euros;

.

reversal from equity to the income statement of net gains from exchange rate adjustments for 617 million euros.

Furthermore, at December 31, 2010, the total loss of the hedging instruments that is still recognized in equity amounts to 19 million euros as a result of the effect of transactions early terminated over the years. The negative impact reversed to the income statement during 2010 is 1 million euros.

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 2011	Nov 2013	5.25%	Semiannually
Euro					

	120	Jan 2011	Nov 2015	3-mo. Euribor + 0.66%	Quarterly
GBP	500	Jan 2011	Dec 2015	5.625%	Annually
GBP	850	Jan 2011	June 2019	6.375%	Annually
GBP	400	Jan 2011	May 2023	5.875%	Annually
USD	186				

Jan 2011

Oct 2029

5.45%

Semiannually

USD

1,000

Jan 2011

Nov 2033

6.375%

Semiannually

USD

1,000

Jan 2011

July 2036

7.20%

Semiannually

Euro

500

Jan 2011

July 2013

3-mo. Euribor
+ 0.63%

Quarterly

USD

1,000

Jan 2011

	June 2018
	6.999%
	Semiannually
USD	
	1,000
	Jan 2011
	June 2038
	7.721%
	Semiannually
Euro	
	400
	Jan 2011
	June 2016
	3-mo. Euribor + 0.79%
	Quarterly
Euro	
	1,500
	Jan 2011
	Aug 2014
	1-mo. Euribor +0.1575%
	Monthly
Euro	
	350
	Jan 2011
	Mar 2014

6-month EIB +
0.29%

Semiannually

Euro

400

Jan 2011

Sept 2013

3-month EIB +
0.15%

Quarterly

Euro

100

Jan 2011

Dec 2013

6-mo. Euribor
-0.023%

Semiannually

GBP

750

Jan 2011

Dec 2017

3.72755%

Annually

USD

1,000

Jan 2011

June 2014

6.175%

Semiannually

USD

1,000

Jan 2011

June 2019

7.175%

Semiannually

USD

1,000

Sept 2012

Sept 2034

6%

Semiannually

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for Cash Flow 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.

The ineffective portion recognized in the income statement from designated Cash Flow Hedge derivatives during 2010 is equal to 0.1 million euros.

Table 3
Non-Hedge Accounting Derivatives

Description	Notional amount *(millions of euros)*	Mark-to-Market (Clean Price) *(millions of euros)*
Exchange rate transactions put into place by Telecom Italia S.p.A.	18	-
Exchange rate transactions put into place by Telecom Italia Finance S.A.	76	-
Exchange rate transactions put into place by Telecom Italia Capital S.A.	30	-

Exchange rate transactions put into place by Olivetti S.p.A.	9	-
Interest and exchange rate transactions put into place by Tim Celular S.A.	497	(59)
Total Non-Hedge Accounting Derivatives	**630**	**(59)**

The following table presents the derivatives of the Telecom Italia Group by type:

Type	**Hedged risk**	**Notional amount at 12/31/2010** *(millions of euros)*	**Notional amount at 12/31/2009** *(millions of euros)*	**Mark-to-Market Spot (Clean Price) at 12/31/2010** *(millions of euros)*	**Mark-to-Market Spot (Clean Price) at 12/31/2009** *(millions of euros)*

Interest rate swaps	Interest rate risk	5,320	4,150	44	18
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	5,648	7,174	(67)	(823)
Total Fair Value Hedge Derivatives		**10,968**	**11,324**	**(23)**	**(805)**

Interest rate swaps	Interest rate risk	3,370	4,720	(332)	(360)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	10,402	9,698	(617)	(1,514)
Commodity Swaps and Options	Commodity risk (energy)	10	5	2	

	(1)
Forward and FX Options	
Currency exchange rate risk	
	3
	34
	-
	-
Total Cash Flow Hedge Derivatives	
	13,785
	14,457
	(947)
	(1,875)
Total Non-Hedge Accounting Derivatives	
	630
	949
	(59)
	(21)

Total Telecom Italia Group Derivatives
25,383
26,730
(1,029)
(2,701)

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 (please refer to 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 variable-rate loans: the nominal repayment amount has been assumed;

.

for fixed-rate loans: fair value has been assumed as the present value of future cash flows using interest rates prevailing at December 31, 2010.

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 market;

.

Level 2: prices calculated using observable market inputs;

.

Level 3: prices calculated using inputs that are not based on observable market data.

The following tables set out, for assets and liabilities at December 31, 2010 and 2009 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**
Available-for-Sale financial assets	**AfS**
Financial Assets/Liabilities Held for Trading	**FAHfT and FLHfT**
Financial Liabilities at Amortized Cost	**FLAC**

Hedging Derivatives

HD

Not applicable

n.a.

Carrying amount for each class of financial asset/liability at 12/31/2010

Comparison between carrying amount and fair value for each category of financial asset/liability at 12/31/2010

Hierarchy levels for each class of financial asset/liability at fair value at 12/31/2010

Carrying amount for each class of financial asset/liability at 12/31/2009

Comparison between carrying amount and fair value for each category of financial asset/liability at 12/31/2009

Note 23 Employee benefits

Employee benefits decreased 98 million euros compared to December 31, 2010 and are composed of the following:

(millions of euros)	**12/31/2008**	Increase	Decrease	**12/31/2009**
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.

(millions of euros)	
	12/31/2009
	Change in scope of consolidation

Argentina BU

Increase

Decrease

12/31/2010

Provision for employee severance indemnities

(a)

1,051

40

(105)

986

Provision for pension plans

25

27

8

(1)

59

Provision for termination benefit incentives

146

228

(99)

275

Total Other provisions for employee benefits (*)

(b)

171

27

236

(100)

334

Total

(a+b)

1,222

27

276

(205)

1,320

of which:

non-current portion

1,075

1,129

current portion (*)

147

191

(*) 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 65 million euros as a result of the sum of provision charges recorded in the income statement (40 million euros for the interest due for all Group companies, the charges for severance indemnity for companies with less than 50 employees and actuarial (gains) losses) and utilizations (-105 million euros for indemnities paid to employees who terminated employment and for advances).

According to national law, 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 recalculated with actuarial techniques using the Projected Unit Credit Cost Method as follows:

.

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 projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, 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 calculated 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 past service already matured by the employee 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

-

(November 2010 official date)

-

afterwards

1.7% per annum

1.9% per annum

1.7% 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 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	

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

3.0% - 5.0%

in each year

1.5% - 4.0%

in each year

.

over 40 up to 50 years of age

1.5% - 4.0%

in each year

0.5% - 2.5%

in each year

.

over 40 up to 50 years of age

9.0%

in each year

2.3%

in each year

.

over 59 years of age

None

None

Probability of retirement:

.

up to 60 years of age

From 35% to 50%

(from 50%

to 100% for women)

From 18% to 60%

(from 33%

to 100% for women)

.

over 60 but less than 65 years of age

From 15% to 35%

(from 0%

to 100% for women)

From 10% to 18%

(from 0%

to 100% for women)

.

over 66 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, 2010 and 2009, respectively, of 986 million euros and 1,051 million euros.

The effect on the income statement, included in employee benefits expenses, is as follows:

(millions of euros)	2010	2009
Current service cost (*)	-	-
Finance expenses (**)	44	67
Net actuarial (gains) losses recognized during the year	(4)	(15)
Total expenses	**40**	**52**
Effective return on		

plan assets

there are no assets servicing the plan

(*) Following the social security reform, the quotas intended for the INPS Treasury Fund or for the supplementary pension funds have been recorded under Employee benefits expense in Social security expenses and not as 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 to 0.5 million euros in 2010 compared to 0.3 million euros in 2009).

(**) Finance expenses include the portion relating to Elettra for nine months of the year.

Provisions for pension plans principally refer to pension plans operating in foreign companies of the Group. The increase of 34 million euros is due principally to the entry in the scope of consolidation of the Sofora group (Argentina). The decrease refers to the exit of the BBNed group from the scope of consolidation.

Provisions for termination benefit incentives increased 129 million euros as a result of the sum of new provision charges in 2010 regarding expenses for mobility under Law 223/91 by the Parent, Telecom Italia S.p.A., Telecom Italia Sparkle, Shared Service Center, Olivetti, Olivetti I-Jet and Advalso and the utilization during the year of the provision for mobility under Law 223/91 accrued in 2008 by the Parent, Telecom Italia S.p.A., Telecom Italia Sparkle, Olivetti and Olivetti I-Jet.

Note 24 Provisions

Provisions decreased 436 million euros compared to December 31, 2009 and are composed of the following:

(millions of euros)	**12/31/2009**	Change in scope of consolidation Argentina BU	**Increase**	**Taken to income**	**Used directly**	**Exchange differences and other changes**	**12/31/2010**
Provision for taxation and tax risks	**157**						

	31
	15
	(19)
	(39)
	18
	163
Provision for asset retirement obligations	
	458
	9
	15
	-
	(10)
	(13)
	459
Provision for legal disputes	
	314
	73
	76
	(2)
	(138)
	10
	333
Provision for commercial risks	
	70

1

6

(6)

(14)

6

63

Provision for risks and charges on investments and corporate-related transactions

150

24

-

(56)

(3)

115

Other provisions

558

16

(3)

(423)

(10)

138

Total

1,707

114

152

(30)

(680)

8

1,271

of which:

-

non-current portion

782

860

current portion

925

Provision for taxation and tax risks increased 6 million euros compared to December 31, 2009. In particular, the Parent, Telecom Italia, used 22 million euros in connection with the pre-litigation settlement of disputes with the Revenue Agency relating to the tax periods 2002, 2005, 2006 and 2007 in reference to the deductibility of certain TOP and Security costs for purposes of income taxes and VAT. The Parent also took to income the portion of direct taxes in excess of requirements. Moreover, internal checks were begun during the year with regard to export transactions for the period 2005-2010 with San Marino operators; in this connection, in some cases the documentation was found to be incomplete. Therefore, a decision was made to accrue in the provision for taxation a total of about 4 million euros (of which 3 million euros relates to probable fines for the period 2005-2009 and 1 million euros to interest and the voluntary disclosure of tax due for 2010).

Provision for asset retirement obligations refers to the charge for the estimated cost to dismantle tangible assets and restore the sites of Telecom Italia S.p.A., the Brazil Business Unit and the Sofora group (Argentina).

This provision increased 1 million euros due to:

.

new provision charges (+15 million euros) and utilizations (-10 million euros)

.

change in the estimate of expenses (-26 million euros) of Telecom Italia S.p.A. and exchange differences of the Brazil Business Unit (+13 million euros);

.

entry of the Sofora group (Argentina) in the scope of consolidation (+9 million euros).

Provision for legal disputes increased 19 million euros compared to December 31, 2009. The increase due to the entry of the Sofora group (Argentina) in the scope of consolidation is offset by the utilization of the Parent, Telecom Italia, to settle certain disputes.

Other provisions decreased 420 million euros particularly due to the partial utilization for 418 million euros of the provision accrued in prior years in respect of the Telecom Italia Sparkle case. In particular, with reference to this case, on July 19, 2010, after an in-depth evaluation, also in light of the opinions expressed by authoritative professionals, the company decided to pay the reduced fines (25% instead of 100% of the amount fined) and the full amount of VAT considered non-deductible and the relative interest, for a total amount of 418 million euros. Further details are provided in the Note Contingent liabilities, other information, commitments and guarantees .

Note 25 Miscellaneous payables and other non-current liabilities

Miscellaneous payables and other non-current liabilities increased 2 million euros compared to December 31, 2009. The composition is as follows:

(millions of euros)	12/31/2010	12/31/2009
Payables to social security agencies	67	137
Capital grants	55	84
Deferred income	863	850
Income tax payables (*)	44	-
Other payables and liabilities		

	57
	13
Total	**1,086**
	1,084

(*) 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:

(millions of euros)	**12/31/2010**	**12/31/2009**
Non-current payables:		
Due from 2 to 5 years after the end of the reporting period	46	108
Due beyond 5 years after the end of the reporting period		

	21
	29
	67
	137
Current payables	
	76
	228
Total	
	143
	365

In particular, with reference to the payable for pension fund integration under Law 58/1992, the higher amount in 2010 (as in 2009) of short-term items (principal and interest) in comparison to medium/long-term items (only principal) is largely due to the extinguishment of the payable relating to employees of the former Iritel, the last installment of which (in total equal to approximately 100 million euros) was paid in October 2010.

Deferred income includes 513 million euros (558 million euros at December 31, 2009) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone service and 257 million euros (283 million euros at December 31, 2009) for the deferral of revenues from the sale of transmission capacity, referring to future years**.**

Note 26 Trade and miscellaneous payables and other current liabilities

Trade and miscellaneous payables and other current liabilities decreased 66 million euros compared to December 31, 2009 and are composed of the following:

(millions of euros)

	12/31/2010	*of which Financial Instruments IAS 39*	**12/31/2009**	*of which Financial Instruments IAS 39*
Payables on construction work (a)	**23**		**24**	
Trade payables:				

Payables to suppliers	
	4,943
	4,943
	4,689
	4,689
Payables to other telecommunication operators	
	1,341
	1,341
	1,326
	1,326
	(b)
	6,284
	6,284
	6,015
	6,015
Tax payables	

	(c)
	685
	652
Miscellaneous payables and other current liabilities:	
Payables for employee compensation	
	537
	537
	440
	440
Payables to social security agencies	
	273
	421

Trade and miscellaneous deferred income	
	871
	883
Advances received	
	27
	26
Customer-related items	
	1,179
	360
	1,109
	238
Payables for TLC operating fee	
	48
	30

Dividends approved, but not yet paid to shareholders	
	93
	93
	22
	22
Other current liabilities	
	333
	223
	326
	235
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year	
	190
	147
Provisions for risks and charges for the current portion	

expected to be settled within 1 year
411
925
(d)
3,962
1,213
4,329
935

Total
(a+b+c+d)
10,954
7,497
11,020
6,950

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Trade payables (all due within 1 year) amounting to 6,284 million euros (6,015 million euros at December 31, 2009) mainly refer to Telecom Italia S.p.A. (3,508 million euros), the companies in the Brazil Business Unit (1,379 million euros) and the Argentina Business Unit (662 million euros).

Tax payables particularly refer to the VAT payable of Telecom Italia S.p.A. (115 million euros), the government concession tax of Telecom Italia S.p.A. (104 million euros), other tax payables of the Brazil Business Unit (247 million euros) and the Argentina Business Unit (101 million euros).

Note 27 Income tax payables

Income tax payables decreased 48 million euros compared to December 31, 2009 and are composed as follows:

(millions of euros)	**12/31/2010**	**12/31/2009**
Current income tax payables:		
Substitute tax	-	165
Income tax	235	118
Total	**235**	**283**

These are mainly in reference to:

-

Sofora - Telecom Argentina group payable (99 million euros);

-

Tim Brasil group payable (86 million euros);

-

IRES payable generated by the Telecom Italia Group consolidated national tax return for the year 2010 (28 million euros);

-

IRAP payable by the Parent, Telecom Italia, for the year 2010 (6 million euros);

In particular, note should be taken of the payment made in 2010 on the third installment of the substitute tax for tax realignment of part of the excess of off-book deductions as of December 31, 2007 (165 million euros).

Note 28   Contingent liabilities, other information, commitments and guarantees

The most important arbitration cases and legal or tax disputes in which the Telecom Italia Group is involved at December 31, 2010 are described below.

The Telecom Italia Group carries provisions of 173 million euros for those of the disputes described below for which there is a risk of losing the case, including 89 million euros for liabilities related to the Telecom Italia Sparkle case. It should also be noted that the disputes that ended in 2010, mentioned in the consolidated financial statements for 2009, had no significant effects on the consolidated financial statements for 2010.

a) Contingent liabilities

Telecom Italia Sparkle   Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Rome Public Prosecutor s Office

On February 23, 2010 the *Guardia di Finanza* (Finance Police), at the request of the Prosecutor s Office of Rome (Prosecutor), served Telecom Italia Sparkle with:

c)

an order setting a fast track hearing procedure concerning the   request to apply the measure to prohibit Telecom Italia Sparkle from performing activities [ ]to be replaced with the appointment of a judicial administrator   pursuant to Legislative Decree No. 231/2001; and

d)

a warrant to seize approximately 298 million euros (corresponding to the unlawfully accrued VAT credit for those tax years in which the alleged unlawful activities took place), 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 in league with others, 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.

Telecom Italia Sparkle therefore set in motion a series of initiatives involving, in particular:

suspension of the employees involved in the proceedings and still employed, as well as the termination of employment of the employees in custody;

appointment of an independent professional (Prof. Paolo Ferro-Luzzi) to, among other things, verify that the organizational measures specified in Legislative Decree 231/2001 have been adopted and actually implemented, and consequent commitment to implementing any improvements recommended by the consultant;

a guarantee in favor of the Judicial Authority for approximately 72 million euros, in case of confiscation pursuant to article 19 of Legislative Decree No. 231/2001, of the amount that may be identified as profit of criminal activities alleged in relation to this case;

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.

the adoption of a series of internal measures that incorporated the final suggestions formulated by Prof. Ferro-Luzzi on the governance of the company, its organization and control arrangements, operations, and the Model 231 .

In the light of these initiatives and after revocation of the request to appoint a legal administrator by the Rome Prosecutor s Office, the judge in the preliminary investigation (the GIP) declared that there are *no grounds to proceed* .

In May 2010, the Finance Police communicated a note of findings to Telecom Italia Sparkle, asserting:

that the VAT on the services attributable to the fraud mentioned above, deducted in the 2005, 2006 and 2007 tax years, totaling approximately 298 million euros, was not deductible; and

that the costs of the aforementioned operations were not deductible for the purposes of IRES and IRAP taxes, with an estimated total tax charge of approximately 429 million euros, plus fines and interest.

Subsequently, in July 2010, the Lazio regional office of the *Agenzia delle Entrate (*Italian Revenue Agency), taking note of the findings raised by the Finance Police, served three notices of assessment on Telecom Italia Sparkle, notifying the company of the non-deductibility of VAT for approximately 298 million euros, as mentioned above, plus interest and fines.

In July 2010 Telecom Italia Sparkle paid the fines in a reduced amount (25% of the sum imposed), the whole of the VAT considered to be non-deductible, plus applicable interest, for a total of 418 million euros. After the payment, the guarantee for approximately 123 million euros, which had been issued in favor of the tax authorities, was terminated.

Moreover, in August 2010, Telecom Italia Sparkle s application for the revocation of the preventive seizure ordered by the Rome Prosecutor s Office in February 2010 was granted. As a result, the assets seized were released, apart from a sum of 10 million euros which remains under seizure for guarantees connected to the criminal proceedings currently underway.

Finally, granting the application made in August 2010 by the Rome Prosecutor s Office, the judge in the preliminary investigation ordered the immediate trial of the defendants currently subject to pre-trial detention. In particular, the application requested the immediate trial of the ex-chief executive and two ex-employees.

In relation to this trial, Telecom Italia Sparkle filed an application to bring a civil action against all the defendants. The Court ruled this application inadmissible in its hearing on December 18, 2010, since it considered such an action incompatible with the company s position as a subject of investigation pursuant to Legislative Decree 231/2001.

Given the complexity of the proceeding, and since it is not yet possible to have full knowledge of all the acts of the proceedings, at present the company cannot yet determine their final outcome. 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 in the matters at issue. Regarding the effects of a conviction under Legislative Decree 231/2001, in addition to the administrative fines (the amount of which would be low) and interdictive measures, the proceeds of the crime would be seized. 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 already guaranteed as described above and provided for in the 2009 consolidated financial statements).

So far as the residual tax risk is concerned, the Italian Revenue Agency has not, so far, issued notices of assessment in relation to the allegations of the Finance Police relating to direct taxation. In this respect, Telecom Italia Sparkle also based on the opinion of authoritative professionals believes that if this should happen, the risk of losing such a case is only possible, not probable. As a result, no provision to cover the tax risk for direct taxation has been made.

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 Agenzia delle Entrate (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. The related expense totals approximately 22 million euros. This latest agreement settles the last of the disputes concerning the issue of the costs of the activities of the TOP and Security Departments.

.

On October 27, 2010 the Milan Revenue Agency issued a formal notice of assessment to subsidiary Olivetti Multiservices S.p.A. (OMS) which contested the invalid deduction of VAT in the 2005 and 2006 tax years for approximately 198 million euros, after recalculation of the so-called pro rata of non-deductibility .

Subsequently, on 27 and 28 October 2010, the Milan Revenue Agency issued an intimation of payment to Telecom Italia and OMS, as jointly obligors, in which it also alleged that mortgage and cadastral tax had not been paid and requesting payment of approximately 61 million euros, including interest and fines.

The allegations of the Milan Revenue Agency originate from certain property transactions carried out in the 2005 and 2006 tax years as part of the reorganisation by Telecom Italia of the buildings used for network equipment. The reorganisation involved the progressive vacating of some of the property used to house this equipment. These transactions were extensively described in the reports with the financial statements for 2005 and 2006.

It should be noted that the Board of Directors of Telecom Italia S.p.A. had approved the transfer of property worth a total of 1 billion euro at the end of 2005. Specifically, the transaction initially involved the transfer, in several tranches between December 2005 and November 2006, of a total of 1,378 properties to subsidiary Olivetti Multiservices (OMS), a company engaged, among other things, in managing and developing the property portfolio of the Telecom Italia Group with the aim of selling the property to third parties at the best price. At the same time, the properties acquired were rented by OMS to Telecom Italia on the basis of contracts that reflected the operational requirements of Telecom Italia.

Subsequently, in the period from December 2005 to December 2006, OMS proceeded to transfer, in several tranches, a total of 1,279 properties by allocating them to two closed-end funds, one called Raissa and the other Spazio Industriale.

Finally, the last phase of the process to develop the property portfolio was the placement by OMS of shares in the closed-end funds received as consideration for the transfers of the property with institutional investors owned by The Morgan Stanley Real Estate Funds and the Cypress Grove International Funds (Soros); the remaining 35% was acquired by Pirelli & C Real Estate, which participated in the transactions in joint venture with the funds mentioned.

The assessment notified to OMS alleges that the company applied an invalid deduction of the VAT on the purchases of the properties assigned to the funds.

While the intimation of payment issued to OMS and to Telecom Italia S.p.A., based on the aforementioned formal notice of assessment, alleged that both companies had neglected to pay the mortgage and cadastral tax due on the transfer of these properties, since the companies in question were alleged to have abused the law , by improperly using the tax regulations specifically introduced by the legislation to facilitate property transactions by using closed-end funds.

In relation to this, the Company believes it has fully complied with the tax regulations in these transactions, and that the allegations of the Revenue Agency are totally without grounds. Such conclusion is also reached on the basis of expert professional opinions. With respect to the notice of demand for stamp duty and mortgage tax, since this notice is definitive, the companies filed an appeal before the Milan Provincial Tax Commission, requesting cancellation of the intimation of payment as well as the suspension of the execution of the above payment. By Presidential Decree on February 14, 2011, the Milan Provincial Tax Commission granted the suspension of the notices in question and set the date for a hearing to deal with appeals for May 10, 2011. Moreover, the company has filed a petition to the Revenue Agency for repealing and suspending the claims.

Application for indictment of Telecom Italia S.p.A. for an administrative offence pursuant to 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 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, for a total cost of 1.8 million euros, 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 (against payment of the sum of 750 thousand euros).

On May 28, 2010, the Judge concluded that the 400 thousand euros fine that the Company had agreed to pay was adequate: after this judgment, Telecom Italia was no longer a defendant in the criminal trial. At the same time, the Judge approved the motion for plea bargaining presented by many other defendants, including ex-employees of the Group.

In a judgment on the same date, the charges of unlawful appropriation of the assets of Telecom Italia and its subsidiary Telecom Italia Latam, which had been admitted to the trial as civil parties in relation to these offences, were declared to be without foundation. Both companies are challenging this judgment, and have appealed to the Italian Supreme Court. Until the aforementioned judgment that there is no case to answer is final, Telecom Italia still benefits from the pre-trial seizure of the assets of one of the defendants, worth over 15 million euros.

At the end of the preliminary hearing phase, the subsidiaries Telecom Italia Latam and Telecom Italia Audit and Compliance Services remained parties to the civil case in the trial for damages deriving from actions other than unlawful appropriation. The Company remained part of the criminal proceedings as the entity with civil vicarious liability, pursuant to article 2049 of the Italian Civil Code, for the actions of the three ex-employee defendants under trial. In this capacity, Telecom Italia has been served with pre-trial seizure orders for approximately 6 million euros in favor of the parties in the civil proceedings against the ex-employee defendants. All of these orders were, however, subsequently revoked by the Court of Re-examination.

The trial phase of the proceedings opened in September 2010 before the Criminal Court of Milan. In the first hearings, some of the intervening parties claiming civil damages asked to be involved in the proceedings on the charges of conspiracy and corruption. The judge for the preliminary hearing had not allowed them to become intervening parties in the proceedings relating to these charges. Telecom Italia has submitted a request to become a civil intervening party to the proceedings relating to all the alleged crimes of those defendants named in the order that are to be tried, including the charges of corruption and conspiracy.

In the hearing on January 26, 2010, the Court granted the motions to become a civil intervening party submitted by Telecom Italia and by the other intervening parties.

In relation to the requests that the Company pay/indemnify third parties, it should be noted that, given the current status of the hearings and on the basis of the available information, it is possible that the Company could lose such proceedings. With respect to one case, on the basis of the available information and the progress of the current proceedings, a negative outcome is deemed to be probable and hence a moderate amount has been provided in the financial statements.

FASTWEB

Proceedings initiated by Fastweb in October 2007 are still under way 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 sought compensation for approximately 1,070 million euros. Fastweb s lawsuit was 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 then filed a formal challenge against Fastweb s claims.

In June 2010, at the Milan Court, Fastweb claimed damages of approximately 65 million euros (Fastweb also submitted a subordinate claim, quantifying the damages at 87 million euros) for alleged acts of unfair competition and misleading advertising as part of the *Impresa Semplice* advertising campaign, for the offer of integrated services to small and medium-sized enterprises. The judgment referred to a preceding opinion issued by the Jury of the IAP (*Istituto di Autodisciplina Pubblicitaria*), the advertising regulatory body, at the behest of Fastweb and other Operators, that this advertising campaign was indeed misleading. Telecom Italia, after remediation of certain minor points raised by its competitors in these proceedings, filed a reply and a counterclaim.

In January 2011, with its appointment of an arbitrator, Fastweb requested payment of damages for 146 million euros suffered after the alleged non-compliance with the provisions contained in the contract for the supply of the LLU (Local Loop Unbundling) service. In particular, Fastweb complained that, in the period from July 2008 to June 2010, Telecom Italia had refused, unlawfully, to execute approximately 30,000 requests to migrate customers to the Fastweb network.

Once the Arbitration Panel is convened, the Company will present its defense and challenge the claims of the other party.

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.

ANTIPIRACY GROUP - FEDERAZIONE ANTI PIRATERIA AUDIOVISIVA (FAPAV)

In June 2010, antipiracy group *Federazione Anti Pirateria Audiovisiva* (FAPAV) commenced proceedings against Telecom Italia in the Rome Court for compensation of the alleged damages (quantified at 320 million euros) resulting from its non-prevention of the illicit downloading of films by customers of the Company accessing certain websites. According to the claimant, Telecom Italia did not adopt the necessary technical and administrative measures to prevent the illegal use of its network. Fapav also asked that the Company provide the Judicial Authorities with information that identifies the customers involved in the alleged unlawful activities.

These proceedings follow a pre-trial procedure at the end of which the Rome Court excluded both any liability of Telecom Italia for the information it carries, and the obligation to suspend the internet access service of which Telecom Italia is merely supplier. The Court only ordered the Company to supply all the information in its possession on the alleged unlawful activity, other from information that identifies the subjects involved.

Telecom Italia, which has complied with the order, filed a reply asking that the claims of the other party be rejected in their entirety. The Italian association of authors and publishers (SIAE) has joined these proceedings to support FAPAV s argument.

EUTELIA and 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 sought compensation of approximately 730 million euros for alleged losses suffered.

These proceedings were initiated as plaintiffs sought injunctive 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.

After a delay in the proceedings pursuant to article 43 of the *Legge Fallimentare* (Italian Bankruptcy Law) after Eutelia was declared insolvent, Eutelia filed a request for resumption of the proceedings.

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. Plaintiff sought damages of approximately 362 million euros for the losses incurred. Telecom Italia filed a formal challenge to dispute plaintiff s claims. So far the judge has dismissed the preliminary motions filed by Teleunit.

POSTE

There are some pending actions brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, relating to the failure by Poste to make payment for services rendered under a series of contracts to supply IT goods and services. The lower court s judgments established an outcome that was partially favorable to the ex-Olivetti, which have been appealed by Poste in individual rehearings.

Following these rehearings, a judgment of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, while another judgment of the same Court declared void one of the disputed contracts. After this judgment, Poste issued a writ for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgment of the Italian Supreme Court considering amendment of the above judgment is still pending.

In its opposition and appeal for suspension of execution, Telecom Italia argued that it had not been ordered to pay specific restitution at that time, and hence there was no valid right to execute (the judgment). Accepting this argument, the Rome Court suspended execution.

DISPUTE FOR ADJUSTMENTS ON LICENSE FEES FOR THE YEARS 1994-1998

Proceedings are still pending in relation to the request by the Ministry of Communications for Telecom Italia and TIM to pay balance amounts in addition to the sums already paid as license fees for 1994-1998.

ANTITRUST PROCEDURE A426 start of preliminary phase

On May 13, 2010 AGCM, in response to a complaint by Fastweb, commenced a preliminary investigation of possible abuse by Telecom Italia of its dominant position. Fastweb alleged that Telecom Italia adopted conducts aimed at excluding other competitors from the public tenders held in 2010 by Consip and Enel for the award of contracts for fixed telephony services and IP connectivity. In particular, according to the complaint, Telecom Italia failed to provide information of a technical-economic nature that was allegedly essential for the preparation of bids by its competitors, and provided some network services to its commercial divisions at conditions that were better than those applied to other operators.

Fastweb complained of similar behavior to AGCom which, in a note of May 26, 2010, rejected Fastweb s claims finding that Telecom Italia is not obliged to provide information or network services in the tender process other than those required by the industry regulations.

Since the investigation is still at an early stage, it is premature to reach any conclusions regarding the alleged conduct, particularly due to the involvement of issues that fall within the purview of AGCom. The company is currently considering its defense strategy.

ANTITRUST PROCEDURE A428 start of preliminary phase

On June 23, 2010, AGCM, in response to reports by Fastweb and Wind, commenced a preliminary investigation of two distinct alleged abuses by Telecom Italia of its dominant position.

According to Wind, Telecom Italia allegedly instituted a *technical boycott* , hindering or delaying the activation of access services, by means of unjustified and spurious refusals (so-called KO). Moreover, according to both complaints, Telecom Italia allegedly applied a discriminatory price policy, offering high discounts on the price of access services to final customers only in those geographic areas of Italy in which disaggregated access services to the local network are available, and hence where other operators can offer greater competition. In order to substantiate their allegations, the OLOs pointed to the invitation to tender by the Florence municipal authority won by Telecom Italia in 2009. In relation to this invitation to tender AGCom, after verifying the replicability of the economic conditions of the traffic services, notified Telecom Italia on February 1, 2011 that it had archived the allegations raised at the start.

Since the investigation is still at an early stage, it is premature to reach any conclusions regarding the alleged behavior. The company is currently considering its defense strategy.

ARGENTINA

Telecom Italia S.p.A. and Telecom Italia International N.V. were involved in judicial and administrative proceedings in Argentina brought by the Werthein group, by SECOM (the local communications authority), the CNDC (the local antitrust authority) and the *Secretaría de Comercio Interior* (a subdivision of Argentina s Ministry of the Economy and Public Finance), with respect to their holding in Sofora.

On October 13, 2010 the *Secretaría de Politíca Económica* (a subdivision of Argentina s Ministry of the Economy and Public Finance) issued a Resolution by which (following the provisions set forth by the CNDC) it authorized Telecom Italia Group to increase its stake in Sofora from 50% to 58% of its share capital, and accepted the commitments undertaken by Telecom Italia and the Werthein group aimed at preserving competition in relation to the activities of Telecom Argentina; the transaction was also approved by SECOM on the same date.

In addition, the Argentine Authorities approved the acquisition of 100% of the share capital of Olimpia S.p.A. by Telco S.p.A. (the Telco Transaction), subject to the fulfillment of the undertakings under a specific agreement signed by the parties to this Telco Transaction, as well as by the Telecom Italia Group companies operating in Argentina, as intervening parties. Such undertakings are intended to guarantee the separation of the activities of the Telefónica Group and the Telecom Italia Group in relation to their respective operations in Argentina. By virtue of these Resolutions the various administrative proceedings in which the Telecom Italia Group was involved in the country are closed.

Finally, in accordance with the agreements signed by Telecom Italia Group and the Werthein group on August 5, 2010 (providing, among other things, for the settlement of the disputes and claims pending between them), the parties filed requests for withdrawal of the proceedings in which they were involved, which were accordingly dismissed by the competent Argentine courts on this basis.

BOLIVIA ENTEL

On November 5, 2010, ETI (Euro Telecom International N.V. a Telecom Italia Group subsidiary), the Bolivian government and Bolivian telecommunication operator Entel reached an agreement to resolve the dispute concerning the expropriation of ETI s holding in Entel by the Bolivian government on May 1, 2008. On the basis of this agreement, ETI received the sum of 100 million dollars (71 million euros), and the parties renounced their respective claims on the ETI shareholding in Entel. The agreement also provided for the termination of the international arbitration proceedings brought by ETI, and the proceedings brought by the Bolivian government in the courts of the United States.

GERMANY - AOL ARBITRATION

In November 2008 AOL LLC and AOL Europe Sàrl (**AOL**) notified Telecom Italia Deutschland Holding GmbH (**TIDE**) and Telecom Italia S.p.A. 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 was 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 at that time) to return to AOL the amount invoiced to BYOA customers for the above services (approximately 2 million euros).

In February 2009, Telecom Italia and TIDE filed their defenses and counterclaims, requesting that AOL, after confirmation that the BYOA customers had to be assigned by AOL, should transfer them, if still possible, and in any event pay any amount improperly collected by AOL as revenues from such customers, or compensation for the damages suffered.

The Arbitration Panel issued a partial award in November 2010, in which it declared that it had jurisdiction to decide on the request for arbitration and that Telecom Italia and TIDE were not entitled to the transfer of the BYOA customer category, since they did not belong to the access business transferred in 2007.

The Panel reserved its right to issue one or more subsequent awards on the matters still unresolved concerning not only AOL s request for compensation, but also the counterclaims filed by Telecom Italia and TIDE, granting time to the parties to file their defenses on these aspects.

GREECE -DELAN

In 2005, Tim International N.V. (merged into Telecom Italia International N.V. in 2008) sold the entirety of its interest held in Tim Hellas. According to the 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 had changed its corporate name into Wind Hellas) notified Tim International a decision by an arbitrational panel on the case in favor of Delan which awarded damages against Wind Hellas for a total amount of 52 million euros including interest. The arbitration award was challenged by Wind Hellas and quashed in the Court of Appeal. The Appeal Court ruling was subsequently confirmed by the Supreme Court.

During 2009, Carothers Ltd., as successor of Delan, started legal proceedings, both seeking interim injunctive measures and on the merits, against Wind Hellas before the Greek courts, on grounds similar to those raised in the arbitration case. Wind Hellas in turn served Telecom Italia International with an impleader for compulsory intervention, allegedly on the basis of the above mentioned indemnification obligations. This impleader was also extended to the injunctive proceedings, in which Carothers sought an attachment of the assets of Wind Hellas. In such injunctive proceedings, Telecom Italia International challenged its impleader as indemnifying party and in August 2010 the Athens court of the first instance declared the request by Wind Hellas inadmissible.

During 2010, Wind Hellas also served Telecom Italia International with an impleader to appear in another proceeding started in 2006 by Wind Hellas against what was at the time Delan (now Carothers), challenging the validity of the arbitration clause in relation to the Delan arbitration, and denying any liability for the damages incurred by Wind Hellas.

OTHER LIABILITIES CONNECTED WITH SALES OF ASSETS AND INVESTMENTS

Under the contracts for the sale of assets and companies, the Telecom Italia Group has guaranteed compensation generally commensurate to a percentage of purchase price to buyers for liabilities deriving mainly from legal, tax, social security and labor-related issues.

In connection with these contingent liabilities, totaling about 1,200 million euros, only for those cases in which an outflow of resources is considered probable, an amount of 103 million euros has been accrued in the provision for risks.

Moreover, the Telecom Italia Group is committed to provide further compensation for certain specific contractual provisions under agreements for the sale of assets and companies, for which the contingent liabilities cannot at present be determined.

b) Other information

Dispute concerning the license fee for 1998

Telecom Italia has issued proceedings against the *Presidenza del Consiglio dei Ministri* (the office of the Prime Minister) before the Rome Court for compensation of the damage caused by the Italian State through appeal judgment No. 7506/09 by the *Consiglio di Stato* (Council of State) that, in the view of the Company, violates the principles of current European community law.

The case was also brought in the light of community jurisprudence that recognizes the right to assert the responsibility of the State in relation to violation of rights recognized in community law and injured by a judgment that has become definitive, in respect of which no other remedy may be applied. The aforementioned appeal judgment definitively denied the right of Telecom Italia to restitution of the license fee for 1998 (totaling 386 million euros for Telecom Italia and 143 million euros for Tim, plus interest), already rejected by the Lazio Regional Administrative Court despite the favorable and binding opinion of the European Court of Justice on February 23, 2008 concerning the conflict between EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and the national regulations that had confirmed, for 1998, the obligation to pay the fee payable by telecommunications concession holders, despite the deregulation process already finalised. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation.

The *Avvocatura di Stato* filed an appearance and submitted a counterclaim for the same sum. In the meantime, on January 15, 2011, Telecom Italia notified the *Consiglio di Stato* of its appeal for revocation of the judgment of the *Consiglio di Stato* itself that is the object of the proceedings.

Mobile telephony: investigation of Dealers

The verification process of prepaid SIM cards incorrectly associated to customer ID documents that started in 2005-2008 continued in 2010. This initiative involved substantially all the SIM cards identified as not properly documented by the internal audit of Telecom Italia in the Greenfield Project carried out with the support of Deloitte, (please refer to the Appendix to the Report on the Corporate Governance and Ownership Structure) and not rectified by January 2009.

During the year, 368,000 identity documents were acquired from customers and 791,000 lines terminated. As a result of the actions taken, the number of SIM cards which were still to be considered as not compliant with applicable regulations had fallen to 723,000 by December 31, 2010.

The Milan Public Prosecutor s Office recently commenced an investigation of the SIM cards with incorrect user registrations, following the internal investigation included as part of Greenfield Project . The investigation extends to the issue, raised in the Deloitte report prepared in connection with the Greenfield Project, of the irregular postponement of the normal expiry date (13 months after the last top-up or other chargeable post-sales action) of approximately 2.5 million SIM cards during the 2006-2008 period.

Telecom Italia is cooperating with this investigation and has created an internal Work Group to look at the issues in depth, with the aim of checking and reconstructing the events under investigation, the operational/authorization process related to the activities in question, and the number and the perimeter of SIM cards involved.

c) Commitments and guarantees

Surety bonds for 173 million euros, net of back-to-back guarantees received for 144 million euros, by Telecom Italia on behalf of associates (16 million euros) and other third parties for medium/long-term financial transactions.

The Parent, Telecom Italia, issued weak comfort letters for a total of 32 million euros on behalf of EtecSA (Cuba) for vendor financing. Such letters terminated on January 31, 2011 following the disposal of the investment.

Guarantees were provided by third parties to Group companies, amounting to 3,637 million euros, to guarantee financing received (2,239 million euros) and performance under outstanding contracts (1,398 million euros).

Details of the main surety bonds at December 31, 2010, are as follows:

Issuer	Amounts (1) (millions of euros)
BBVA - Banco Bilbao Vizcaya Argentaria	715
Intesa SanPaolo	486
Sumitomo	52
Bank of Tokyo - Mitsubishi UFJ	254
Banco Santander	86
Barclays Bank	75
CARIGE	92
Natixis	84
Other banks in favor of the EIB	116

(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.

(2)

The guarantee provided by BNL/BNP Paribas for 46 million euros on the loan extended by the EIB for the Telecom Italia Breitband Infrastruktur Deutschland project, which was repaid before maturity for 40 million euros on June 18, 2010, will continue to be valid for 13 months after repayment, in accordance with the agreement for protection against any clawback risks.

(3)

The guarantee provided by BBVA for 163.5 million euros on the loan extend by the EIB for the Breitband Infrastrukture Deutschland II Project, which was repaid for 142.2 million euros on September 30, 2010, will continue to be valid for 13 months after repayment, in accordance with the agreement for protection against any clawback risk.

(4)

The guarantees provided by BBVA for 149.5 million euros and BNL/BNP Paribas for 195.5 million euros on the loan extended by the EIB for the Banda Larga Mezzogiorno Project, were due, respectively, on November 9, 2010 and November 12, 2010 and replaced, as was Telecom Italia s right, with other guaranteeing banks.

(5)

(6)

There are also surety bonds on the 3G service in Brazil for 109 million euros.

d) Assets pledged to secure financial liabilities

The contracts for low-rate 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 913 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 increased 677 million euros compared to 2009. The composition is as follows:

(millions of euros)	**2010**	**2009**
Equipment sales	1,608	1,735
Services	25,953	25,159
Revenues on construction contracts		

	10
	-
Total	
	27,571
	26,894

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 3,740 million euros (3,866 million euros in 2009, -3.3%) included in the costs of service.

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 decreased 25 million euros compared to 2009 and is composed of the following:

(millions of euros)	
	2010
	2009

Compensation for late payment of telephone services	72	71
Recovery of employee benefits expenses and services rendered	47	46
Capital and operating grants	38	49
Damage compensation, penalties and sundry recoveries	18	30
Other income	80	84
Total	**255**	

280

Note 31 Acquisition of goods and services

Acquisition of goods and services decreased 97 million euros compared to 2009 and consist of the following:

(millions of euros)

	2010	**2009**
Acquisitions of raw materials and merchandise (a)	**1,568**	**1,852**
Costs of services:		
Revenues due to other TLC operators		

	3,740	3,866
Interconnection costs	45	50
Commissions, sales commissions and other selling expenses	1,457	1,409
Advertising and promotion expenses	643	603
Professional and consulting services	380	340
Utilities	374	

		408
Maintenance	382	365
Outsourcing costs for other services	502	482
Mailing and delivery expenses for telephone bills, directories and other materials to customers	96	91
Other service expenses	848	793
(b)	**8,467**	**8,407**

Lease and rental costs:

Rent and lease

594

572

TLC line lease rent and rent for satellite system use

490

366

Other lease and rental costs

264

283

(c)

1,348

1,221

Total

(a+b+c)

11,383

11,480

Note 32 Employee benefits expenses

Employee benefits expenses amount to 4,021 million euros, increasing 287 million euros and consist of the following:

(millions of euros)	2010	2009
Payroll expenses		
Wages and salaries	2,615	2,570
Social security expenses	931	942

Employee severance indemnities	
	40
	52
Other employee benefits	
	112
	100
	(a)
	3,698
	3,664
Temp work costs	
	(b)
	9
	21
Miscellaneous expenses for personnel and for other labor-related services rendered	

Remuneration of personnel other than employees	8	9
Charges for termination benefit incentives	56	40
Expenses for mobility under Law 223/91	258	-
Other	(8)	-
(c)	**314**	**49**
Total		
(a+b+c)		

4,021

3,734

Higher employee benefits expenses are mainly due to:

.

the entry in the scope of consolidation of the Sofora group (Argentina) (+3,711 average headcount for 114 million euros);

.

lower expenses owing to the contraction in the average headcount of the salaried workforce: -3,526 compared to 2009 (net of Argentina) of whom an average of -565 persons are under so-called solidarity contracts in Telecom Italia S.p.A. and Shared Service Center;

.

expenses and accruals for a total of 258 million euros for mobility under Law 223/91, of which 254 million euros refers to the Domestic Business Unit following agreements reached with the labor unions by Telecom Italia S.p.A. (August 4, 2010), by Telecom Italia Sparkle (December 7, 2010) and by Shared Service Center (November 16, 2010), as well as 4 million euros for mobility agreements again under Law 223/91 signed by Olivetti (March 8, 2010 and September 30, 2010), Olivetti I-Jet (January 11, 2010) and Advalso (March 8, 2010) following the agreements reached with the labor unions by Telecom Italia S.p.A. on August 4, 2010, by Telecom Italia Sparkle on December 7, 2010 and by Shared Service Center on November 16, 2010.

The average headcount of the salaried workforce, including those with temp work contracts and excluding those of Discontinued operations/Non-current assets held for sale, is 70,150 in 2010 (69,964 in 2009). A breakdown by category is as follows:

(headcount)	**2010**	**2009**
Executives	1,172	1,155

Middle Management	5,316	5,037
White collars	63,410	63,204
Blue collars	168	252
Employees on payroll	**70,066**	**69,648**
People with temp work contracts	84	316
Total average headcount of salaried workforce (*)	**70,150**	**69,964**

(*) Excluding employees of Discontinued operations/Non-current assets held for sale (2,168 in 2009).

Headcount in service at December 31, 2010, including those with temp work contracts but not employees relating to Discontinued operations/Non-current assets held for sale is 84,200 (71,384 at December 31,2009) with an increase of

12,816 principally due to the entry in the scope of consolidation of the Sofora group (Argentina) .

Note 33 Other operating expenses

Other operating expenses increased 77 million euros compared to 2009 and are composed as follows:

(millions of euros)	2010	2009
Impairments and expenses in connection with credit management	478	565
Provision charges	80	168
TLC operating fees and charges	484	318

Indirect duties and taxes	200	128
Penalties, settlement compensation and administrative fines	105	73
Association dues and fees, donations, scholarships and traineeships	24	26
Sundry expenses	51	67
Total	**1,422**	**1,345**
of which, included in the supplementary disclosures on financial instruments	*478*	

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Other operating expenses grew 77 million euros compared to 2009 due to the entry of the Argentina Business Unit in the scope of consolidation (impact of 83 million euros in 2010) and the increase of the Brazil Business Unit (+121 million euros including an exchange rate effect of +87 million euros), countered by the reduction of the Domestic Business Unit for 140 million euros.

Indirect duties and taxes include expenses for 15.6 million euros for the payment during the year of VAT regarding export invoices to San Marino operators in the period 2005-2009, for which the tax documentation proved to be incomplete.

Note 34 Internally generated assets

Internally generated assets increased 32 million euros compared to 2009 and consist of the following:

(millions of euros)	**2010**	**2009**
Intangible assets with a finite useful life	287	291
Tangible assets		

owned	260	224
Total	**547**	**515**

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 decreased 4 million euros compared to 2009 and are composed of the following:

(millions of euros)	2010	2009
Amortization of intangible assets with a finite useful life:		
Industrial patents and intellectual property rights	1,507	1,662
Concessions, licenses, trademarks and		

similar rights

314

272

Other intangible assets

395

317

(a)

2,216

2,251

Depreciation of tangible assets owned:

Buildings (civil and industrial)

57

45

Plant and equipment

2,799

2,780

Manufacturing and distribution equipment

13

16

Ships

4

7

Other

343

328

(b)

3,216

3,176

Depreciation of tangible assets held under finance leases:

Buildings (civil and industrial)	
	109
	109
Plant and equipment	
	-
	-
Aircraft	
	-
	3
Other	
	6
	12
	(c)
	115
	124
Total	
	(a+b+c)
	5,547
	5,551

The increase in amortization and depreciation charges is due to the entry of the Argentina Business Unit in the scope of consolidation (impact of 140 million euros in 2010) and higher charges by the Brazil Business Unit (+72 million euros, including the Brazilian real/euro exchange rate effect of +195 million euros), countered by the decrease in amortization and depreciation charges of the Domestic Business Unit (-207 million euros).

Further details are provided in the Notes Other intangible assets and Tangible assets owned and under finance leases

For a breakdown of depreciation and amortization by operating segment/geographical area, reference should be made to the Note Segment Reporting .

Note 36 Gains (losses) on disposals of non-current assets

The composition is as follows:

(millions of euros)	2010	2009
Gains on disposals of non-current assets:		
Gains on the retirement/disposal of intangible and tangible assets	22	14
Gains on the disposal of investments in subsidiaries		

	2
	-
	(a)
	24
	14
Losses on disposals of non-current assets:	
Losses on the retirement/disposal of intangible and tangible assets	
	13
	62
Losses on disposal of consolidated investments	
	-
	11
	(b)
	13
	73

	Total
	(a-b)
	11
	(59)

Net gains on disposals of non-current assets mainly include:

.

gain, net of the related transaction costs, for a total of 19 million euros, in connection with the completion of the Elettra sales transactions, realized through the sale of one of the ships and the subsequent disposal of the investment by the Domestic Business Unit International Wholesale;

.

gain, net of the related transaction costs, for about 1 million euros, in connection with the disposal, on October 5, 2010, of the entire investment held in BBNed N.V.;

.

other net losses on the sale of non-current assets for a total of 9 million euros.

In 2009, net losses on disposals of non-current assets were recorded for 59 million euros. Of that amount, 39 million euros referred to the final divestiture of the platform for credit management of the Domestic Business Unit s fixed consumer clientele segment and 11 million euros to the sale of a 60% stake in Telecom Media News S.p.A..

Note 37 Impairment reversals (losses) on non-current assets

Details are as follows:

	(millions of euros)
	2010

	2009	
Impairment losses on non-current assets:		
on intangible assets	56	7
on tangible assets	7	5
Total	**63**	**12**

The writedowns of non-current assets amount to 63 million euros and include 46 million euros for the impairment of the goodwill allocated to the Media Business Unit; the writedown was based on the results of the impairment test. The remaining amount comprises other writedowns of intangible and tangible assets and the provision charges for expenses connected with the transactions for the sale of BBNed and Elettra.

Note 38 Other income (expenses) from investments

Details are as follows:

(millions of euros)	2010	2009
Income from other investments	2	2
Net gains on disposals of other investments	30	4
Sofora revaluation, net of the reversal of the negative exchange rate reserve	266	

		-
Impairment losses on Italtel Group	-	(39)
Impairment losses on other investments	(9)	(18)
Total	**289**	**(51)**
of which, included in the supplementary disclosures on financial instruments	*22*	*(43)*

Other income (expenses) from investments in 2010 is an income balance of 289 million euros and specifically include the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest already held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010 through the acquisition of a further 8% stake, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control.

The line item also includes the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

In 2009, the balance of Other income (expenses) from investments was an expense balance of 51 million euros and included the writedown of 39 million euros on the investment in Italtel Group.

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Note 39 Finance income and Finance expenses

Finance income

Finance income increased 520 million euros compared to 2009 and is composed as follows:

(millions of euros)	**2010**	**2009**
Other finance income:		
Income from financial receivables, recorded in Non-current assets	1	4
Income from securities other		

than investments, classified as Non-current assets	-	-
Income from securities other than investments, recorded in Current assets	45	19
Income other than the above:		
Interest income	143	132
Foreign exchange gains	740	445

Income from fair value hedge derivatives	502	462
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	635	617
Income from non-hedging derivatives	44	32
Miscellaneous finance income	53	18
	(a)	

	2,163
	1,729
Positive fair value adjustments to:	
Fair value hedge derivatives	
	841
	38
Underlying financial assets and liabilities of fair value hedges	
	11
	674
Non-hedging derivatives	
	66
	120
	(b)
	918

832
Impairment reversals on financial assets other than investments
(c)
-
-
Total
(a+b+c)
3,081
2,561
of which, included in the supplementary disclosures on financial instruments
335
298

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Foreign exchange gains amount to 740 million euros, increasing 295 million euros compared to 2009 (445 million euros). This amount was reduced by 3 million euros of foreign exchange losses originating from the Reversal of the *Reserve for cash flow hedge derivatives to the income statement* (207 million euros in 2009). The counterpart of foreign exchange gains is represented by foreign exchange losses (734 million euros in 2010; 387 million euros in 2009).

Income from fair value hedge derivatives (502 million euros) increased 40 million euros compared to 2009 (462 million euros) and refers to CCIRS contracts for 84 million euros and IRS contracts for 418 million euros.

The positive effect of the Reversal of the *Reserve for cash flow hedge derivatives* to the income statement for the interest rate component (635 million euros) increased 18 million euros compared to 2009 (617 million euros). It refers to CCIRS contracts for 364 million euros, IRS contracts for 270 million euros and other derivative contracts for 1 million euros.

Income from non-hedging derivatives (44 million euros) increased 12 million euros compared to 2009 (32 million euros) and refers to IRS contracts for 24 million euros, CCIRS contracts for 9 million euros and other derivative contracts for 11 million euros.

Miscellaneous finance income (53 million euros) increased 35 million euros compared to 2009 (18 million euros).

Positive fair value adjustments to fair value hedge derivatives total 841 million euros, increasing 803 million euros compared to 2009 (38 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 758 million euros (55 million euros in 2009).

Positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives amount to 11 million euros, decreasing 663 million euros compared to 2009 (674 million euros). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value of the financial hedge derivatives equal to 68 million euros (667 million euros in 2009).

Positive fair value adjustments to non-hedging derivatives stand at 66 million euros, decreasing 54 million euros compared to 2009 (120 million euros). Of that reduction, 49 million euros is due 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.

Finance expenses

Finance expenses increased 424 million euros compared to 2009 and are composed as follows:

(millions of euros)

	2010	2009
Interest expenses and other finance expenses:		
Interest expenses and other costs relating to bonds	1,646	1,663
Interest expenses to banks	218	242
Interest expenses to others		

	244	224
	2,108	**2,129**
Commissions	67	28
Foreign exchange losses	734	387
Charges from fair value hedge derivatives	286	355
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)		

772

751

Charges from non-hedging derivatives

87

63

Miscellaneous finance expenses

188

175

(a)

4,242

3,888

Negative fair value adjustments to:

Fair value hedge derivatives

68

667

Underlying financial assets and liabilities of fair value hedge derivatives

758

55

Non-hedging derivatives

87

121

(b)

913

843

Impairment losses on financial assets (Securities other than investments)

(c)

-

-

Total

(a+b+c)

	5,155
	4,731
	of which, included in the supplementary disclosures on financial instruments
	2,238
	2,263

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Foreign exchange losses (734 million euros) increased 347 million euros compared to 2009 (387 million euros). This amount was reduced by 620 million euros of foreign exchange gains arising from the Reversal of the *Reserve for cash flow hedge derivatives* to the income statement (135 million euros in 2009). The counterpart of this amount is represented by foreign exchange gains (740 million euros in 2010, 445 million euros in 2009).

Charges from fair value hedge derivatives (286 million euros) decreased 69 million euros compared to 2009 (355 million euros) and refer to CCIRS contracts for 103 million euros, IRS contracts for 165 million euros and other derivative contracts for 18 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 (772 million euros) increased 20 million euros compared to 2009 (751 million euros) and refers to CCIRS contracts for 508 million euros, IRS contracts for 259 million euros and other derivative contracts for 5 million euros.

Charges from non-hedging derivatives (87 million euros) increased 24 million euros compared to 2009 (63 million euros) and refer to IRS contracts for 22 million euros, CCIRS contracts for 40 million euros and other derivative contracts for 25 million euros.

Miscellaneous finance expenses (188 million euros) increased 13 million euros compared to 2009 (175 million euros).

Negative fair value adjustments to fair value hedge derivatives (68 million euros) decreased 599 million euros compared to 2009 (667 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 11 million euros (674 million euros in 2009).

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (758 million euros) increased 703 million euros compared to 2009 (55 million euros). The counterpart of this amount is represented by positive fair value adjustments to the corresponding fair value hedge derivatives which amount to 841 million euros (38 million euros in 2009).

Negative fair value adjustments to non-hedging derivatives total 87 million euros, decreasing 34 million euros compared to 2009 (121 million euros). Of the amount of this reduction, 35 million euros is due 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.

For a better understanding of the net impacts commented above, a table is presented below:

(millions of euros)	2010	2009
Net exchange gains and losses:	**6**	**58**
Exchange gains	740	445
Exchange losses	(734)	(387)

Net result from derivatives

(a+b+c)

36

(58)

Income from fair value hedge derivatives

502

462

Charges from fair value hedge derivatives

(286)

(355)

Net result from fair value hedge derivatives

(a)

216

107

Positive effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component	635
	617
Negative effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component	(772)
	(751)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component	

(b)	**(137)**	**(134)**
Income from non-hedging derivatives	44	32
Charges from non-hedging derivatives	(87)	(63)
Net result from non-hedging derivatives (c)	**(43)**	**(31)**

Net fair value adjustments to fair value hedge derivatives and underlying:

(d+e)

26

(10)

Positive fair value adjustments to fair value hedge derivatives

841

38

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives

(758)

(55)

Net fair value adjustments

(d)

83

(17)

Positive fair value adjustments to underlying financial

assets and liabilities of fair value hedge derivatives	
	11
	674
Negative fair value adjustments to fair value hedge derivatives	
	(68)
	(667)
Net fair value adjustments	
	(e)
	(57)
	7
Net fair value adjustments to non-hedging derivatives:	
	(f+g)

			(21)
			(1)
Positive fair value adjustments to non-hedging derivatives	**(f)**	66	120
Negative fair value adjustments to non-hedging derivatives	**(g)**	(87)	(121)

Note 40 Income tax expense

Taxes on continuing operations decreased 573 millions of euros compared to 2009; considering Taxes on Discontinued operations/Non-current assets held for sale this change is 566 million euros.

Details are as follows:

(millions of euros)	2010	2009
Current taxes for the year	1,347	1,288
Lower current taxes of prior years	(89)	(101)
Benefit of reimbursement application for IRAP deductibility	-	

(35)

Total current taxes

1,258

1,152

Deferred taxes

(710)

(31)

Total taxes on continuing operations

(a)

548

1,121

Total taxes on Discontinued operations/Non-current assets held for sale

(b)

-

(7)

Total income tax expense for the year

(a+b)

548

1,114

In particular, while income taxes of the Parent, Telecom Italia S.p.A., are basically stable, the Brazil Business Unit has a tax benefit of about 700 million euros arising mainly from the recognition of deferred tax assets in connection with the recoverability of tax loss carryforwards which became recoverable on the basis of estimated future taxable income.

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, 2010 and 2009 are summarized as follows:

(millions of euros)	**2010**	**2009**
Profit before tax:		
from continuing operations	4,127	3,339
from Discontinued operations/Non-current assets held for sale	(7)	(629)
Total profit before tax	**4,120**	**2,710**

Current taxes	1,258	1,152
Deferred taxes	(710)	(38)
Total income tax expense	**548**	**1,114**
of which:		
on continuing operations	548	1,121
on Discontinued operations/Non-current assets held for sale	-	(7)

The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy, and the effective tax rate for the years ended December 31, 2010 and 2009 is the following:

(millions of euros)	2010	2009
Profit before tax:		
from continuing operations	4,127	3,339
from Discontinued operations/Non-current assets held for sale	(7)	(629)

Total profit before tax	**4,120**		**2,710**	
Income taxes calculated at tax rate in effect	**1,133**	**27.5%**	**745**	**27.5%**
Effect on income taxes, connected with:				
Tax losses of the year not considered recoverable	18	0.5%	24	0.9%
Tax losses not considered recoverable in prior years and recoverable in future years				

(627)

(15.2%)

(77)

(2.9%)

Non-deductible costs

36

0.9%

48

1.8%

Benefit of reimbursement application for IRAP deductibility

-

-

(35)

(1.3%)

Goodwill impairment charge and accruals to provisions for disposal of HanseNet

-

-

154

5.7%

Sofora revaluation

(73)

(1.8%)

-

	-			
Other net differences	(295)	(7.2%)	(85)	(3.2%)
IRAP	356	8.6%	340	12.6%
Total effective income tax recorded in income	**548**	**13.3%**	**1,114**	**41.1%**

Note 41 Profit for the year

Profit for the year increased 1,976 million euros compared to 2009 and can be analyzed as follows:

(millions of euros)	**2010**	**2009**

Profit for the year	**3,572**	**1,596**
Attributable to:		
Owners of the Parent		
Profit (loss) from continuing operations	3,128	2,203
Profit (loss) from Discontinued operations/Non-current assets held for sale	(7)	(622)
Profit (loss) for the year attributable to owners of the Parent	**3,121**	**1,581**
Non-controlling interests:		

Profit (loss) from continuing operations	451	15
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit (loss) for the year attributable to Non-controlling interests	**451**	**15**

Note 42 Earnings per share

For purposes of the calculation of diluted earnings per share, account was only taken of the potential ordinary shares relating to the equity compensation plans of the employees for which, at December 31, 2010, the market and non-market performance conditions were satisfied. 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.

	2010	2009
Basic and diluted earnings per share		
Profit attributable to owners of the Parent	3,121	1,581
Less: additional dividends for savings shares (0.011 euros per		

share)

(66)

(66)

(millions of euros)

3,055

1,515

Average number of ordinary and savings shares

(millions)

19,266

19,247

Basic and diluted earnings per share ordinary shares

0.16

0.08

Plus: additional dividends per savings share

0.01

0.01

Basic and diluted earnings per share savings shares

(euros)

0.17

0.09

Basic and diluted earnings per share from continuing operations

Profit from continuing operations

3,128

2,203

Less: additional dividends for savings shares

(66)

(66)

(millions of euros)

3,062

2,137

Average number of ordinary and savings shares

(millions)

19,266

19,247

Basic and diluted earnings per share from continuing operations ordinary shares	
	0.16
	0.11
Plus: additional dividends per savings share	
	0.01
	0.01
Basic and diluted earnings per share from continuing operations savings shares	
	(euros)
	0.17
	0.12
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)

(7)

(622)

Average number of ordinary and savings shares

(millions)

19,266

19,247

Basic and diluted earnings per share from Discontinued operations/ Non-current assets held for sale - ordinary shares

(euros)

-

(0.03)

Basic and diluted earnings per share from Discontinued operations/ Non-current assets held for sale - savings shares

(euros)

-

(0.03)

2010

	2009
Average number of ordinary shares(*)	13,239,883,276
	13,220,792,908
Average number of savings shares	6,026,120,661
	6,026,120,661
Total	**19,266,003,937**
	19,246,913,569

(*) The number only takes into account the potential ordinary shares relating to equity compensation plans of the employees for which the market and non-market performance conditions were satisfied.

Note 43 Segment reporting

a) Reporting by operating segment

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Argentina
- Media
- Olivetti
- Other Operations

Separate Consolidated income statements by operating segment

None of the Telecom Italia Group s customers exceeds 10% of consolidated revenues.

Revenues by operating segment

Capital expenditures by operating segment

Headcount by operating segment

Assets and liabilities by operating segment

b) Reporting by geographical area

Revenues

Non-current operating assets

Breakdown by location of operations

Footnotes

Breakdown by location of customers

Breakdown by location of operations

(millions of euros)

2010

2009

2010

2009

12/31/2010

12/31/2009

Italy (a)	Abroad (b)	**Total (a+b)**
20,210	7,361	**27,571**
21,767	5,127	**26,894**
18,689	8,882	**27,571**
20,250	6,644	**26,894**
58,596	10,702	**69,298**
59,831	5,974	**65,805**

Note 44 Related party transactions

At December 31, 2010 there are no significant transactions with related parties, including intragroup transactions, which are non-recurring or unusual / atypical in nature. Such transactions, when not dictated by specific laws, are in any case conducted at arm s length.

The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the separate consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.

The **effects on the individual line items of the separate consolidated income statements** for the years 2010 and 2009 are as follows:

The **effects on the individual line items of the consolidated statements of financial position** at December 31, 2010 and at December 31, 2009 are as follows:

The **effects on the individual line items of the consolidated statements of cash flows** for the years 2010 and 2009 are as follows:

Transactions with associates and joint ventures

The most significant amounts are summarized as follows:

Transactions with companies controlled by associates and joint ventures

Following the September 23, 2010 subscription to Italtel Group S.p.A. s capital increase, the total percentage interest held by the Telecom Italia Group through ordinary and preferred shares rose from 19.37% to 34.68%, with the concomitant modification of governance. Therefore, from that date, the company is considered an associate and the companies controlled by Italtel Group S.p.A. are considered related parties of the Telecom Italia Group.

On October 13, 2010, the Sofora group entered the scope of consolidation following the acquisition of an 8% stake in the share capital of Sofora Telecomunicaciones S.A., the holding company of the Telecom Argentina group. Up to that date, Sofora Telecomunicaciones S.A. was an associate and therefore a related party; the companies controlled by Sofora Telecomunicaciones S.A. were related parties in that they were subsidiaries of associates.

The most significant amounts are summarized as follows:

At December 31, 2010, the Telecom Italia Group has provided guarantees on behalf of associates and companies controlled by associates for a total of 16 million euros (16 million euros al 12/31/2009), of which, on behalf of: Aree Urbane S.r.l. 5 million euros (11 million euros at 12/31/2009), EtecSA (Cuba) 3 million euros (3 million euros at 12/31/2009), TM News S.p.A. 2 million euros (2 million euros at 12/31/2009) and Italtel Group 6 million euros. Furthermore, weak comfort letters have also been provided for a total of 32 million euros (34 million euros at 12/31/2009) on behalf of EtecSA (Cuba) on vendor loans.

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 the post of director. Consequently, the income statement transactions reported in the following tables with the Edizione group include the income statement transactions with respect to the Edizione Holding 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:

Sale of HanseNet Telekommunikation GmbH to the Telefónica group

On February 16, 2010, after having obtained the necessary authorizations from the competent authorities, the sale of HanseNet Telekommunikation GmbH to Telefónica group was finalized. HanseNet (an operator on the retail market of broadband services in Germany) was a 100%-owned subsidiary of Telecom Italia S.p.A. through the holding in Telecom Italia Deutschland Holding GmbH. The sales price of the company was based on an enterprise value of 900 million euros.

Transactions with pension funds

The most significant amounts are summarized as follows:

Remuneration to key managers

In 2010, 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 million euros in 2010 (15.4 million euros in 2009), analyzed as follows:

In 2010, the contributions paid in to the defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A. or by subsidiaries of the Group on behalf of key managers amount to 0.35 million euros (0.34 million euros in 2009).

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:

Note 45 Equity compensation plans

Equity compensation plans in effect at December 31, 2010 and at December 31, 2009 relate to the following:

.

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 ordinary shares;

.

rights to the allotment of bonus Telecom Italia ordinary shares based on the effective period of participation in the plan by each of the beneficiaries and, in some cases, the degree to which they have reached pre-fixed performance targets.

These plans are used by Telecom Italia for retention purposes and as a long-term incentive for the managers and employees of the Group.

The Telecom Italia compensation plans are described in the following paragraphs.

Stock Option 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.

The principal features of the stock option plans in effect at December 31, 2009 and 2010 are summarized below.

	Stock Option Plans (Date of Shareholders meeting)
	BoD Grant Date (Beneficiaries)
	Lot

Exchange Ratio (1)

Exercise Price of Options (2) (euros)

Exercise Price of Equivalent Options (3) (euros)

Original Grant

Exercise period

Equivalent Options Outstanding at:

No. of Options

No. of Equivalent Options

from

to

12/31/2009

12/31/2010

2008 Top Plan (4/14/2008)	
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
	8,550,000
2002 Top Plan (6/12/2001-5/26/2003)	
2/13/2002 (16 Top Managers)	

2°

3.300871

9.203

2.788052

3,540,000

11,685,083

2/18/04

2/18/09

3°

3.300871

9.203

2.788052

4,720,000

15,580,111

2/18/05

2/18/10

5,941,567

2002 Plan

granted in March

(12/15/1998 - 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

3°

3.300871

9.665

2.928015

11,983,200

39,554,997

3/3/05

3/3/10

16,929,390

2002 Plan

granted in August

(12/15/1998 - 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

3°

3.300871

7.952

2.409061

336,000

1,109,093

3/3/05

3/3/10

224,457

2003-2005 Plan (10/10/2000 - 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

3°

1.730000

5.070

2.930636

16,685,667

28,866,204

12/22/04

5/31/10

1,212,557

Total

35,707,971

8,550,000

(1)

Number of Telecom Italia S.p.A. ordinary shares granted for the exercise of one option.

(2)

Original exercise price established 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.

- **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 beneficiaries 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 beneficiaries of TIM s Stock Option 2001-2003 Plan and Supplementary Stock Option 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 beneficiaries 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 end of 2010, the options subject to performance conditions were forfeit since the Telecom Italia TSR did not reach the median of the panel of reference; therefore, the number of options outstanding at December 31, 2010, and which will become exercisable at the end of the vesting period, is equal to 75% of the options granted.

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 beneficiaries 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 will be recognized in equity over the vesting period of the options with a contra-entry entry to Employee benefits expenses ; the amount charged to income in 2010 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., Telefónica: 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);

.

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 2009 and 2010, no options were exercised.

The market prices of Telecom Italia ordinary shares at December 31, 2009 and 2010 were respectively 1.0920 euros and 0.9711 euros, thus below the exercise price of the equivalent options outstanding and exercisable at those dates.

In 2010, the Stock Option Plans 2002 Top, 2002 and 2003-2005 lapsed since the terms for exercising the options expired.

Aggregate movements in all Telecom Italia stock option plans in 2009 and 2010 are presented in the following table.

	Number of Equivalent Options	Weighted Average Price per Equivalent Option (euros)
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

Granted during the year

-

--

Exercised during the year

-

-

Forfeit [1] during the year

(2,850,000)

1.95

Lapsed (2) during the year	*(1,152,662)*	*2.93*
Expired (3) during the year	*(23,155,309)*	*2.89*
Options outstanding at December 31, 2010	**8,550,000**	**1.95**
Of which: Options exercisable at December 31, 2010	-	-

(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 show the Telecom Italia stock option plans existing at December 31, 2010 and 2009 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, 2010	Equivalent Options Exercisable at December 31, 2010
(euros)		

Equivalent Options	Residual Weighted Average Life (years)	Weighted Average Grant Price (euros)	Equivalent Options	Weighted Average Grant Price (euros)

1.95

8,550,000

3.29

1.95

-

-

8,550,000

-

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

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 introduce the plan to grant bonus Telecom Italia ordinary shares under the Performance Share Granting plan approved by the shareholders meeting held on April 16, 2007. The plan grants beneficiaries (top management of Telecom Italia or its subsidiaries) the right to a pre-set maximum and variable number of bonus shares, according to the period of each single beneficiary s effective participation in the plan and the extent to which the pre-set share performance targets, reported below, have been reached (reference can be made to the specific information document published on August 9, 2008 and the communications published on September 16, 2008, October 1, 2009, January 1, 2010 and July 1, 2010).

The beneficiaries of the Plan include, among others, the executive directors of companies controlled by Telecom Italia S.p.A..

The situation as at December 31, 2010 shows that the number of the shares that could potentially be effectively allotted based on the rights granted is equal to 10,225,800 (of which 9,166,200 to Telecom Italia employees and 1,059,600 to executive directors of subsidiaries).

For each recipient, the maximum number of ordinary shares under the Full Grant was determined on the basis of the beneficiary 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 far as the Performance Targets are concerned, the Plan rewards the profit and equity return on the investment made by shareholders, 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 TSR of the Index 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%.

The fair value of the rights of the Performance Share Granting Plan, originally determined as a total of 2,593 thousand euros, at December 31, 2009 was equal to 2,551 thousand euros. During 2010, new options of the Performance Share Granting Plant were granted and others were forfeited; therefore, the fair value of the rights at December 31, 2010 equal to 2,356 thousand euros (of which 2,147 thousand euros refers to employees of Telecom Italia) and determined based on the increase of 288 thousand euros due to the options granted on January 1, 2010 and July 1, 2010 and following the decrease of 483 thousand euros owing to options forfeited during the year - is recognized in equity over the vesting period of the rights with a contra-entry to employees benefits expenses , for 2,356 thousand euros (the charge to the 2010 income statement is 850 thousand euros).

The per unit fair value of the rights granted under the Performance Share Granting plan on September 8, 2008 and September 16, 2008 was determined at each grant date 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 the regulation, 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: for each grant, the 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 per unit fair value of the rights granted under the Performance Share Granting Plan on October 1, 2009 and January 1, 2010 was determined at each grant date 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 the regulation, for Telecom Italia this is represented by the average of the share trading prices 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, respectively taken over the two previous years and equal to 50.029% for the rights granted on October 1, 2009, taken over the previous 1.5 years and 37.781% for the rights granted on January 1, 2010;

.

option period: two years from June 30, 2009 to June 30, 2011;

.

expected dividends: for each grant, the 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, respectively 1.222% for the rights granted on October 1, 2009 and 1.2742% for the rights granted on January 1, 2010.

The per unit fair value of the rights granted under the Performance Share Granting Plan on July 1, 2010 was determined at the grant date by applying the Montecarlo method and using the following calculation parameters:

.

exercise price: equal to zero;

.

current price: in compliance with the regulation, for Telecom Italia this is represented by the average of the share trading prices in June 2010 equal to 0.94 euros; for the Dow Jones Stoxx Index TLC sector this is represented by the average of the closing prices in June 2010 equal to 245.65 euros;

.

TI volatility: historical volatility values of one year were assumed taken over the two previous years and equal to 31.196%;

.

option period: one year from June 30, 2009 to June 30, 2011;

.

expected dividends: for each grant, the 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 and equal to 0.468%.

LTI Plan 2010 - 2015

The Telecom Italia board of directors in its meeting of February 25, 2010 voted to submit the Long Term Incentive Plan 2010-2015 (LTI Plan) to the April 29, 2010 shareholders meeting which approved the Plan on that date. The Plan provides for distributing, to a chosen number of management, who are not already beneficiaries of other long-term incentive plans, a cash bonus based on three-year performance measured against pre-set targets. Under the Plan, the beneficiaries have the option of investing 50% of the bonus in Telecom Italia (issuer) ordinary shares at market price and retaining the shares and maintaining an employment relationship with companies of the Group for the next two years - the bonus allotment of an equal number of ordinary shares (reference can be made to the specific information document published on April 13, 2010 and the communication published on July 29, 2010, the date on which the CEO identified 121 beneficiaries of the Plan). Beginning in 2010, each year, if the board of directors so decides, an additional LTI

Plan could be introduced, establishing each time the conditions for entrance and performance measurement.

None of the members of the Telecom Italia board of directors is a beneficiary of the Plan. Beneficiaries, instead, can be managers who hold *pro tempore* positions in subsidiaries of the issuer. For each beneficiary, the bonus is determined in relation to the person s organizational role and strategic potential as a percentage of the beneficiary s fixed annual compensation.

Specifically, the total maximum bonus available to the beneficiaries is 8,754,600 euros to be paid in cash in the early months of 2013 and will vary in relation to reaching the pre-set three-year 2010-2012 performance targets. At the same time, the beneficiaries will have the option of investing 50% of the bonus in Telecom Italia ordinary shares as part of a share capital increase in cash reserved for the beneficiaries; the subscription price will be set on the basis of the market price at the date of the offering. The maximum equivalent amount of the reserved capital increase will therefore be equal to 4,377,300 euros.

Beneficiaries who retain the subscribed shares for two years, as described above, subject to being in the employ of companies of the Telecom Italia Group, in the early months 2015 will be allocated profits, under ex art. 2349 of the Italian Civil Code, through the issue of one bonus share for every subscribed share. The allotment of the bonus shares is not related to performance targets. Indicatively, in reference to the situation at December 31, 2010, the shares that could potentially be effectively allotted based on the rights granted are 4,507,568 (at the moment, these are all reserved for the 121 employees of Telecom Italia identified on July 29, 2010 and still in service at December 31, 2010).

The Plan covers a period of five years, from the beginning of 2010 to the first months of 2015 when the bonus shares could be issued which are related to those paid and issued at the beginning of 2013. As far as the performance targets are concerned, during the incentive period, the Plan rewards both the profit and equity return on the investment made by the shareholders, measured using the Total Shareholder Return of Telecom Italia (TI TSR) and the financial result, measured in terms of Free Cash Flow.(FCF).

In particular:

.

the payment of 65% of the bonus will be linked to the TI TSR of the three-year period 2010-2012 compared to a basket made up of the 15 largest European telecommunications companies, with a payment of the bonus varying from 0 to 150% of the amount based on Telecom Italia s positioning in the list of peers;

.

the payment of 35%, instead, will be linked to an absolute performance indicator represented by the cumulative FCF during the period 2010-2012, with a payment of the bonus varying from 0% to 150% of the amount based on the degree to which the performance targets have been reached, as per the Business Plan relating to the same three-year period.

The Plan has been accounted for according to IFRS 2 (*Share-based payment*); the manner of settlement of the bonus includes a right composed of the following elements:

·

a debt component: represented by the Plan beneficiary s right to ask for payment of the bonus in cash;

·

an equity component: represented by the right to receive 50% of the bonus in shares and the bonus shares at the end of the next two years.

The plan is measured as indicated below. With regard to the debt component:

·

65% linked to reaching TSR targets: calculated as the weighted average of the levels of expected bonus by the probability of fulfillment of the relative TSR scenarios (probability weighted average method); such probability is measured using the Montecarlo method;

·

35% linked to reaching FCF targets: calculated as the bonus level according to the FCF best estimate by making reference to the data of the Telecom Italia three-year plan.

With regard to the equity component, the theoretical value of the right to the bonus share was calculated as the fair value of a 24-month call option on the Telecom Italia ordinary share, starting in 3 years. The option measurement model takes into account the following input parameters:

·

spot price: the theoretical price of the Telecom Italia ordinary share three years from the grant date of the plan (the forward price is based on the current price and on the assumptions of dividends and discount rates during the period);

·

exercise price: equal to zero;

·

volatility: historical information relative to the Telecom Italia ordinary share in the year preceding the measurement date;

·

risk-free interest rate: 5 years;

·

expected dividends per share: equal to 0.55 euros in the first year and 0.60 euros in the second year, on the basis of the estimate by the Bloomberg agency;

·

option type: European.

The total value of the equity component also considers that:

·

for the possible purchase of shares at the end of the vesting period, the subscriber will use 50% of the value of the bonus, that is, 50% of the value of the debt component measured as described above: and

·

the purchase price of the shares will be assumed to be equal to the spot price used for the calculation of the theoretical value of the option.

When the LTI Plan 2010/2015 was introduced, its total measurement was 3,422 thousand euros, of which 2,376 thousand euros related to the debt component and 1,046 thousand euros to the equity component. Such measurement was confirmed at December 31, 2010. The relative expense recorded under employee benefits expenses in 2010 was 991 thousand euros, or which 792 thousand euros referred to the debt component and 199 thousand euros to the equity component (the latter component was recorded with a contra-entry to equity).

Broad-based Employee Share Ownership Plan 2010 2014

The Broad-based Employee Share Ownership Plan 2010/2014, approved by the April 29, 2010 shareholders meeting, consists of the offer to subscribe in cash to Telecom Italia ordinary shares at a discount on the market price, reserved for employees of Telecom Italia or companies controlled by Telecom Italia with registered offices in Italy. Payment may be made in installments through the payroll and with a further bonus allotment of ordinary shares, subject to retaining the subscribed shares and maintaining an employment relationship with companies of the Telecom Italia Group (reference can be made to the specific information document published on April 13, 2010). The same shareholders meeting specifically conferred power for this purpose to the board of directors, which determined 31,000,000 as the maximum number of shares issuable in 2010 for the execution of the first phase of the Plan, 300 shares as the minimum lot subscribable and 3,000 euros as the maximum amount of individual investment taking into account the exemption, tax and contribution limit, established by art. 51 of the Consolidated Tax Act compared with the presumable performance of the share in the short-term.

None of the members of the board of directors of Telecom Italia is a beneficiary of the Plan. The Plan, instead, is directed indistinctly to all employees of the Italian companies of the Group; therefore, beneficiaries can be managers who hold *pro tempore* positions in subsidiaries of the issuer.

The share offering was carried out from June 28, 2010 to July 9, 2010, with 9,474 employees subscribing to the shares (16% of those entitled). The shares were offered at a per share subscription price of 0.84 euros, corresponding to the arithmetic mean of the share trading prices between May 25, 2010 and June 25, 2010, discounted by 10%. On July 13, 2010, the employees were informed of the result of the subscription request; for accounting purposes that date represents the allotment and measurement date of the rights under the Broad-based employee share ownership plan . On July 29, 2010, a total of 27,056,139 Telecom Italia ordinary shares were issued (87% of the maximum number voted by the board of directors meeting), of which 24,427,422 are reserved for 8,530 employees of Telecom Italia S.p.A. and 2,628,717 for 944 employees of Italian subsidiaries; consequently, the quantity of shares issuable with the relative bonus capital increase destined to subscribers who for one year retain their shares and maintain an employment relationship with companies of the Telecom Italia Group, at that date, was equal to a maximum of 9,018,713 to be allotted as bonus shares in a ratio of one share for every three subscribed shares.

The Plan is accounted for in accordance with IFRS 2 (*Share-based payment*). Specifically: the per share fair value of the discount applied for subscription to the shares was calculated as the difference between the market price and the subscription price, defined as follows:

.

subscription price: 0.84 euros;

.

market price: share trading price of Telecom Italia ordinary shares recorded on the electronic screen market of Borsa Italiana S.p.A. on July 13, 2010.

The per share fair value of the discount, multiplied by the number of subscribed shares, gives the total discount, accounted for in full in 2010 in employee benefits expenses with a contra-entry to equity equal to 3,431 thousand euros.

The theoretical fair value of the right to the bonus share, instead, was calculated by referring to a 12-month call option on Telecom Italia ordinary shares and using the following input parameters:

.

spot price: the share trading price of Telecom Italia ordinary shares on July 13, 2010 on the electronic screen market of Borsa Italiana S.p.A.;

.

exercise price: equal to zero;

.

volatility: historical information relative to the Telecom Italia ordinary share in the 12 months preceding July 13, 2010;

.

risk-free interest rate: 1 year;

.

expected dividends per share: equal to 0.55 euros on the basis of the estimate by the Bloomberg agency;

.

option type: European.

The fair value of the right, multiplied by the maximum number of bonus shares that can be allotted, equals the total fair value of the rights to the bonus shares at the allotment date (8,190 thousand euros, of which 7,394 thousand euros refers to Telecom Italia S.p.A. and 796 thousand euros to Italian subsidiaries). Following the termination of employment relationships, the sales of shares and the intragroup transfer of employees, which took place up to December 31, 2010, the total fair value of the rights to the bonus shares at that date is equal to 8,098 thousand euros, of which 7,311 thousand euros refers to Telecom Italia S.p.A. and 787 thousand euros to Italian subsidiaries. The cost for the year 2010, accounted for in employee benefits expenses with a contra-entry to equity, is 3,760 thousand euros.

Note 46 Significant non-recurring events and transactions

The impact of non-recurring events and transactions on equity, profit, net financial debt and cash flows of the Telecom Italia Group is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006.

The impact of non-recurring events and transactions in 2010 is as follows:

(millions of euros)
Equity
Profit for the year
Carrying
Net financial debt
Cash flows (*)
Amount financial statements
(a)
32,610

	3,572
	32,087
	(352)
Other income	
	2
	2
	-
	-
Sundry expenses	
	(13)
	(13)
	12
	(12)
Expenses for mobility under Law 223/91	
	(187)
	(187)
	94
	(94)
Gains on disposal of Elettra	

	19
	19
	(35)
	35
Gains on disposal of BBNed	
	1
	1
	(47)
	39
Accruals to provision for risks and charges on investments	
	(4)
	(4)
	-
	-
Impairment loss on goodwill	
	(46)
	(46)
	-
	-

Reversal of impairment loss on EtecSA (Cuba)	
	30
	30
	-
	-
Valuation of investment in Sofora at fair value	
	-
	266
	-
	-
Other income connected with investments - Entel (Bolivia)	
	29
	29
	(71)
	71
Net gains on disposals of Other	

investments

1

1

(1)

1

Payment of expenses connected with

TI Sparkle case

-

-

418

(418)

Total impact (excluding impact of

Discontinued operations)

(b)

(168)

98

370

(378)

Impact of Discontinued operations

(c)

(7)

(7)

(800)

141

Figurative amount financial statements

(a-b-c)

32,785

3,481

32,517

(115)

(*) Cash flows refer to the increase (decrease) in Cash and cash equivalents during the year.

The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(millions of euros)	2010	2009
Other income:		
Other	2	**-**
Acquisition of goods and services / Other operating expenses:		
Professional services for corporate-related transactions	-	(4)
Sundry expenses	(15)	(8)
Employee benefits expenses:		

Expenses for mobility under Law 223/91	(258)	-
IMPACT ON EBITDA	**(271)**	**(12)**
Gains (losses) on non-current assets:		
Gains on disposal of Elettra	19	-
Gains on disposal of BBNed	1	-
Loss on disposal of Telecom Media News	-	(11)
Losses on disposals		

intangible assets

-

(39)

Impairment reversals (losses) on non-current assets:

Impairment loss on goodwill

(46)

(6)

Accruals to provision for risks and charges on investments

(4)

-

IMPACT ON EBIT

(301)

(68)

Share of profits (losses) of associates and joint ventures accounted for using the equity method - Other income (expenses) from investments

Reversal of impairment loss on EtecSA (Cuba)	30	-
Valuation of investment in Sofora at fair value	266	-
Gains on disposal of Other investments	1	4
Other income connected with investments - Entel (Bolivia)	29	-
Finance income (expenses):		
Other finance income and expenses	1	(10)

IMPACT ON PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**26**	**(74)**
Effect of income taxes	72	14
Discontinued operations	(7)	(599)
IMPACT ON PROFIT FOR THE YEAR	**91**	**(659)**

Note 47 Positions or transactions resulting from atypical and/or unusual operations

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2010 the Telecom Italia Group has not put into place any atypical and/or unusual transactions, as defined by that Communication.

Note 48 Other information

a) Exchange rates used to translate the financial statements of foreign operations (*)

	Year-end exchange rates (statements of financial position)		**Average exchange rates for the year** (income statements and statements of cash flows)	
(local currency against 1 euro)	**12/31/2010**	**12/31/2009**	**Year 2010**	**Year 2009**

Europa

BGN

Bulgarian Lev

1.95580

1.95580

1.95580

1.95580

CZK

Czech koruna

25.06100

26.47300

25.28441

26.43714

HUF

Hungarian forint

277.9500

270.42000

275.43744

280.31935

CHF

Swiss franc

1.25040

1.48360

1.38036

1.50996

TRY

Turkish lira

2.06940

2.15470

1.99706

2.16256

GBP

Pound sterling

0.86075

0.88810

0.85804

0.89132

RON

Romanian leu

4.26200

4.23630

4.21185

4.23826

North America

USD

U.S. dollar

1.33620

1.44060

1.32620

1.39442

Latin America

VEF	Venezuelan bolivar	3.46978	3.09340	3.42870	2.99425
BOB	Bolivian boliviano	9.36676	10.11300	9.30962	9.79228
PEN	Peruvian nuevo sol	3.75086	4.16189	3.74631	4.19072
ARS	Argentinean peso	5.30994	5.46185		

5.18735

5.20788

CLP

Chilean peso

625.27500

730.74400

675.52315

776.67296

COP

Colombian peso

2,571.3800

2,943.76000

2,516.50868

2,990.09031

MXN

Mexican peso

16.54750

18.92230

16.74302

18.79029

BRL

Brazilian real

2.22638

2.50837

2.33215

2.76933

Other countries					
ILS	Israeli shekel	4.73775	5.45452	4.94668	5.46601

(*) Source: data processed by the European Central Bank, Reuters and major Central Banks.

b) Research and development

Expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:

(millions of euros)

	12/31/2010	**12/31/2009**
Research and development costs expensed during year	64	74
Development costs capitalized	634	768
Total research and development costs (expensed and capitalized)	**698**	**842**

Moreover, in the separate consolidated income statement for the year 2010 amortization charges are recorded for development costs, capitalized during the year and in prior years, for an amount of 840 million euros.

Research and development activities conducted by the Telecom Italia Group are detailed in the Report on Operations.

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 other interconnecting operators.

At December 31, 2010, the amount of lease installments receivable on non-cancelable lease contracts is equal to 4 million euros (6 million euros at December 31, 2009) 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, 2010, the amount of lease installments payable on non-cancelable lease contracts is the following:

(millions of euros)	**12/31/2010**	**12/31/2009**
Within 1 year	234	417
From 2 to 5 years	573	597
Beyond 5 years	65	68

	Total
	872
	1,082

d) Directors and statutory auditors remuneration

The total remuneration to which the directors and statutory auditors of Telecom Italia S.p.A. are entitled in 2010, for carrying out such functions in the Parent and in other consolidated companies, amounts to 6.1 million euros for the directors and 0.5 million euros for the statutory auditors.

Summary of fees to the audit firm and the firms in its network

The following schedule reports the accrued for audit and services other than audit rendered to the companies of the Telecom Italia Group by PricewaterhouseCoopers S.p.A. (PwC) and the other firms in the PricewaterhouseCoopers network (PwC network).

PricewaterhouseCoopers S.p.A.

Other firms in the PricewaterhouseCoopers network

(in euros)

Telecom Italia

Subsidiaries

Telecom Italia Group

Telecom Italia

Subsidiaries

Telecom Italia

Group

Total PWC network

Audit services

1,705,200

569,794

2,274,994

15,939

1,682,470

1,698,409

3,973,403

Verification services with issue of certification:

320,000

-

320,000

964

65,751

66,715

386,715

Other services:

-

Accounting due diligence procedures on companies for acquisition

120,000

39,300

159,300

-

-

-

159,300

-

tax consulting services

-

-

-

1,851

15,695

17,546

17,546

-

other

-

-

-

19,900

-

19,900

19,900

Total accrued costs referring to 2010 for audit and other services from the PwC network

2,145,200

609,094

2,754,294

38,654

1,763,916

1,802,570

4,556,864

The following schedule reports the total fees due to PwC and the other firms in the PwC network for the audit of the 2010 financial statements as well as the accrued fees referring to the year 2010 for other audit/review services and for those services, other than the audit, rendered to companies of the Telecom Italia Group by PwC and the other firms in the PwC network. Also included here are out-of-pocket expenses incurred in 2010 relating to said services.

PricewaterhouseCoopers S.p.A.

Other firms in the PricewaterhouseCoopers network

(in euros)

	Telecom Italia	Subsidiaries	Telecom Italia Group	Telecom Italia	Subsidiaries	Telecom Italia Group	Total PwC network
Audit services	2,682,300	956,267	3,638,567	60,419	2,993,571		

3,053,990

6,692,557

Verification services with issue of certification

320,000

-

320,000

964

65,751

66,715

386,715

Other services:

-

Accounting due diligence procedures on companies for acquisition

120,000

39,300

159,300

-

-

-

159,300

-

tax consulting services

-

-

-

1,851

15,695

17,546

17,546

-

other

-

-

-

19,900

-

19,900

19,900

Total 2010 fees due for audit and other services from the PwC network

3,122,300

995,567

4,117,867

	83,134
	3,075,017
	3,158,151
	7,276,018
Out-of-pocket	195,155
TOTAL	**7,471,173**

Note 49 Events subsequent to December 31, 2010

Purchase of Nortel Preferidas B shares (Nortel is a company controlled by Sofora)

On January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., finalized the purchase from Fintech Investment Ltd of 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferidas B* shares, for 65,849,056.00 U.S. dollars. Nortel is the holding company controlling the Telecom Argentina group, and is in turn controlled by Sofora.

The ADSs in question represent 117,587.6 *Preferidas B* shares, which correspond to 8% of the total *Preferidas B* shares (without voting rights); taking into account the investment held by Nortel in Telecom Argentina, the Telecom Italia Group s economic interest in Telecom Argentina went from 16.2% to 18.3%.

Sale of the entire investment held in EtecSA (Cuba)

On January 31, 2011, Telecom Italia International N.V. (a company of the Telecom Italia Group) finalized the sale of its entire 27% investment in the Cuban operator EtecSA to the Cuban financial company Rafin S.A..

The sales transaction provides that the Telecom Italia Group will receive a total amount of 706 million U.S. dollars, of which 500 million U.S. dollars (equal to 365 million euros) has already been paid by the buyer (formally authorized by the Cuban government), while the remaining amount will paid by EtecSA in 36 monthly installments. The receivable is secured by a specific guarantee.

From an economic standpoint, the transaction will have a positive impact on the 2011 separate consolidated income statement of about 15 million euros, in addition to the reversal of the impairment loss of 30 million euros recorded in 2010.

Bond issue

On January 25, 2011, the Parent, Telecom Italia S.p.A. issued bonds for 1,000 million euros, 5.125% annual coupon and maturity on January 25, 2016. The bonds issued at a price of 99.686 produce a yield of 5.198%.

Bond buyback

Between January 7, 2011 and February 16, 2011, Telecom Italia Finance repurchased a part of the bonds denominated Telecom Italia Finance 7.5% April 2011 for 50 million euros and the bonds denominated Telecom Italia Finance 7.25% April 2012 for 187 million euros. In 2009 and 2010, the Telecom Italia Finance 7.5% April 2011 bonds were bought back for a total of 116 million euros.

Note 50 List of companies of the Telecom Italia Group

In accordance with Consob Communication DEM/6064293 dated July 28, 2006, the list of companies is provided herein.

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.

Certification of the Consolidated Financial Statements at December 31, 2010 Pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with Amendments and Additions

1.

We, the undersigned, Franco Bernabè, as the Chief Executive Officer, and Andrea Mangoni, as the Manager responsible for preparing Telecom Italia S.p.A. s financial reports, certify, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of February 24, 1998:

.

the adequacy in relation to the characteristics of the company and

.

the effective application

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the 2010 fiscal year.

2.

Telecom Italia has adopted as its framework for the definition and assessment of its internal control system, with particular reference to the internal controls surrounding the preparation of the financial statements, the Internal Control Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission.

3.

The undersigned also certify that:

3.1.

the consolidated financial statements at December 31, 2010:

a)

are prepared in conformity with International Financial Reporting Standards adopted by the European Union pursuant to EC regulation 1606/2002 of the European Parliament and Council dated July 19, 2002 (International Financial Reporting Standards IFRS) as well as the legislative and prescribed provisions in force in Italy with particular reference to the measures enacted for the implementation of Legislative Decree 38 dated February 28, 2005;

b)

agree with the results of the accounting records and entries;

c)

provide a true and fair view of the financial conditions, results of operations and cash flows of the Company and the Group;

3.2.

the report on operations contains a reliable operating and financial review of the Company and of the Group, as well as a description of the their exposure to major risks and uncertainties.

February 24, 2011

/signed/

/signed/

Franco Bernabè

Andrea Mangoni

Chief Executive Officer

Manager responsible for preparing the Company s financial reports

Telecom Italia S.p.A. Separate

Financial Statements

at December 31, 2010

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Statements of Changes in Equity for the Year ended December 31, 2010

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Note 1 Form, content and other general information

Form and content

Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of Telecom Italia S.p.A. are located in Milan at Piazza degli Affari 2, Italy.

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

Telecom Italia S.p.A. operates in Italy in the fixed and mobile telecommunications sector.

The Telecom Italia separate financial statements for the year ended December 31, 2010 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as **IFRS**), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing art. 9 of Legislative Decree 38 dated February 28, 2005).

In 2010, Telecom Italia has applied the accounting policies on a basis consistent with those of the previous years and did not elect the early adoption of any IFRS.

The separate 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 accordance with IAS 1 (*Presentation of Financial Statements*), comparative information included in the separate financial statements, unless otherwise indicated, refers to the preceding year.

The statements of financial position, the separate income statements and the statements of comprehensive income and the statements of changes in equity are presented in euros (without cents), while the statements of cash flows and the notes to these separate financial statements are presented, unless otherwise indicated, in thousands of euros.

Publication of the Telecom Italia separate financial statements for the year ended December 31, 2010 was approved by resolution of the board of directors meeting held on February 24, 2011.

However, final approval of the Telecom Italia S.p.A. separate financial statements rests with the shareholders meeting.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the statement of financial position has been prepared by classifying assets and liabilities according to current and non-current criterion;

- the separate 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 Company, conforms to internal reporting and is in line with the industrial sector of reference;

- the statement of comprehensive income includes the profit or loss for the year as shown in the separate income statement and all other non-owner changes in equity;

- the 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).

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the separate income statement, income and expenses relating to non-recurring transactions or events have been specifically identified and their relative impact has been shown separately at the main intermediate result levels. Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, (for instance: income/expenses arising from the sale of properties, business segments and investments included under non-current assets, income/expenses stemming from corporate-related reorganizations and income/expenses arising from fines levied by regulatory agencies).

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the statements of financial position, the separate income statements and the statements of cash flows.

Note 2 Accounting policies

Going concern

The separate financial statements for the year ended December 31, 2010 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia S.p.A. will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than 12 months).

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 Company s ability to continue as a going concern:

·

the main risks and uncertainties to which the Company is exposed. These are described in the specific paragraph Principal risks and uncertainties in the Report on Operations under Business outlook for the year 2011 ;

·

the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital. This is described in the paragraph devoted to Share capital information under the Note Equity ;

·

the policy for financial risk management (market risk, credit risk and liquidity risk). This is described in the Note Financial risk management .

Intangible assets

Goodwill

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date (through merger or contribution) of companies or business segments and is measured as the difference between the consideration transferred (measured in accordance with IFRS 3 which is generally recognized on the basis of the acquisition date fair value) and the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement.

IFRS 3 requires, among other things, incidental costs incurred in connection with a business combination to be charged to the income statement, whereas previously they were included in the consideration paid.

Goodwill is initially recorded at cost and is subsequently reduced only for impairment losses. Further details are provided in the accounting policy *Impairment of tangible and intangible assets Goodwill*.

In case of the disposal, in whole or in part, of a business/segment previously acquired, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Company 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 Company 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;

.

there is a contract binding the customer for a specific period of time;

.

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 foreseen minimum period of the underlying contract (24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

Tangible assets

Property, plant and equipment

Property, plant and equipment owned is stated at acquisition or production 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, the discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. The changes in the aforementioned liability must be recognized as an increase or decrease in the cost of the asset; the amount deducted from the cost of the asset must not exceed the carrying amount of the asset. Any excess must be recognized immediately in 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 Company, are initially recognized as assets of the Company at 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.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If 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.

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 separate 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 are those arising from an explicit time horizon of three years as well as those extrapolated from the last year of the explicit time horizon to estimate the terminal value. 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 or market in which the cash-generating unit (or group of cash-generating units) operates.

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).

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 Company 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 Company 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 Company 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

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost adjusted by impairment losses. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the investment is increased to the relative original cost. This reversal of an impairment loss is recognized as income in the separate income statement.

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 Company 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;
- 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 financial assets 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.

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 Telecom Italia S.p.A. 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;

.

available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of available-for-sale financial assets 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 Company 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;

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

Telecom Italia S.p.A. 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 IAS 39 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.

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.

Non-current assets held for sale/Discontinued operations

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from the other statement of financial position assets and liabilities. The corresponding amounts for the previous period are not reclassified.

A discontinued operation is a component of an entity that has been divested or classified as held for sale and:

- represents a major line of business or geographical area of operations;

- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate income statement, net of tax effects, for comparative purposes.

Non-current assets (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell.

Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate income statement.

An entity shall recognize a reversal of an impairment loss for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

Employee benefits

Provision for employee severance indemnities

Employee severance indemnities, 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 IAS 19, Telecom Italia S.p.A. 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, as the time for payment of the benefit comes closer, are included in the separate income statement under Employee benefits expenses .

Starting from January 1, 2007, Italian law gives the employee the possibility of choosing the destination of accruing employee severance indemnity either to supplementary pension funds or to the company. Companies that employ at least 50 employees are obliged to transfer the employee severance indemnity to the Treasury fund managed by INPS. Consequently, the 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

Telecom S.p.A. provides additional benefits to certain managers and employees of the companies of the Group through equity compensation plans (stock options, performance share grants and long-term incentive plans); moreover, a broad-based employee share ownership plan has recently been introduced. The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate income statement in Employee benefits expenses , in the case of employees of the Company, and in Investments , in the case of employees of subsidiaries, over the period between the grant date and vesting date, with a contra-entry to an equity reserve denominated Other equity instruments . Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses or Investments

For the plans subject to vesting conditions, when such conditions are not met, the amount recognized in Other equity instruments must be reclassified to Other reserves .

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses in the case of employees of the Company, and to Investments , in the case of employees of subsidiaries; at the end of each year such liability is measured at fair value.

Provisions

The company 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 resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses .

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 reporting 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 include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the Company and do not result in increases in equity. Therefore, they are excluded from revenues.

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

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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.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Company. In the event that the Company is acting as an agent (for example, for non-geographic numbers) only the commission received from the content provider is recognized as

revenue.
Revenues for delivering information or other content are recognized when the information or content is delivered to the customer. In the event that the Company is acting as an agent only the commission received from the content provider is recognized as revenue.

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.

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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.

For offerings which include the sale of mobile handsets and service contracts, Telecom Italia S.p.A. recognizes revenues related to the sale of the handset when it is delivered to the final 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 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.

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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.

Finance income and expenses

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

Dividends

Dividends 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.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the Company.

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 statement of comprehensive income indicates the amount of income taxes on each item included in Other components of the statement of comprehensive income .

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 separate financial statements except for non tax-deductible goodwill. 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 are determined based on enacted tax rates 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 .

Use of estimates

The preparation of separate 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 separate 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 the Note Goodwill .

Bad debt provision

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.

Depreciation and amortization expense

Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Accruals, contingent liabilities and employee benefits

As regards the provisions for asset retirement obligations, 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.

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.

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:

- 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);

- the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

Income taxes

Income taxes (current and deferred) are calculated 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 losses carried forward to future years and deductible temporary 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 separate financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Company, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

New Standards and Interpretations endorsed by the EU and in force from January 1, 2010

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.

Improvements to IFRS (issued in 2008)

On January 23, 2009, Commission Regulation (EC) 70/2009 was issued adopting certain improvements to International Financial Reporting Standard (IFRS), among others, relating 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 adoption of this improvement did not have an impact on the separate financial statements at December 31, 2010.

Amendments to IAS 39 (Financial Instruments: Recognition and Measurement Eligible hedged items)

On September 15, 2009, Commission Regulation (EC) 839/2009 was issued adopting some amendments to IAS 39 which clarify certain aspects of hedge accounting:

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identifying the cases in which inflation may be a hedged risk;

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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 adoption of these amendments did not have an impact on the separate financial statements at December 31, 2010.

IFRIC 17 *(Distribution of Non-cash Assets to Owners)*

On November 26, 2009, Commission Regulation (EC) 1142/2009 was issued adopting IFRIC 17. This 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.

The adoption of this interpretation did not have an impact on the separate financial statements at December 31, 2010.

Amendments to IFRS 2 *(Group Cash-settled Share-based Payment Transactions)*

On March 23, 2010, Commission Regulation (EC) 244/2010 was issued adopting the amendments IFRS 2. 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 adoption of these amendments did not have an impact on the separate financial statements at December 31, 2010.

Improvements to IFRS (issued in 2009)

On March 23, 2010, Commission Regulation (EC) 243/2010 was issued adopting the improvements, in force from January 1, 2010, to the following principles:

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IFRS 2 (*Share-based Payment*): the 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*): the 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.

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IAS 1 (*Presentation of Financial Statements*): the 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.

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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.

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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.

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IAS 39 (*Financial Instruments: Recognition and Measurement*): the main amendments, to be applied prospectively to all unexpired contracts, are as:

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.

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IFRIC 9 (*Reassessment of Embedded Derivatives*): the amendments, applicable prospectively, exclude 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.

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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 (issued in 2009) did not have an impact on the separate financial statements at December 31, 2010.

New Standards and Interpretations adopted by the EU not yet in force

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2011 are reported below and briefly summarized.

Amendments to IAS 32 (*Classification of Rights Issues*)

On December 23, 2009, Commission Regulation (EC) 1293/2009 was issued adopting some amendments to IAS 32 regarding the accounting of 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 these amendments is not expected to have a material impact on the separate financial statements.

Amendments to IAS 24 (*Related Party Disclosures*)

On July 19, 2010, Commission Regulation (EC) 632/2010 was issued adopting the amendments to IAS 24. These amendments 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 application of these amendments is not expected to have an impact on the separate financial statements.

Amendments to IFRIC 14 (*Prepayments of a Minimum Funding Requirement*)

On July 19, 2010, Commission Regulation (EC) 633/2010 was issued adopting the amendments to 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, with earlier application permitted. The application of these amendments is not expected to have a material impact on the separate financial statements.

IFRIC 19 (*Extinguishing Financial Liabilities with Equity Instruments*)

On July 23, 2010, Commission Regulation (EC) 662/2010 adopted IFRIC 19. This interpretation clarifies the accounting treatment 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 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 separate financial statements.

Improvements to IFRS issued in 2010

On February 18, 2011, Commission Regulation (EC) 149-2011 was issued adopting the improvements, in force beginning January 1, 2011, to the following principles:

- **IFRS 1** ***(First-Time adoption of International Financial Reporting Standards)***: the amendments refer to the disclosure to be provided for the following specific cases: accounting policy changes in the year of first-time adoption of IFRS and use of the deemed cost after the date of transition to IFRS, also with reference to operations subject to rate regulation.

- **IFRS 3 (*Business Combinations)***: the amendments:

  limit the choice to measure non-controlling interests either at fair value or at the proportionate share of the acquiree s net identifiable assets at the acquisition date;

  clarify that IFRS 2 should be applied at the acquisition date both for share-based payment transactions of the acquiree and for those replaced by the acquirer;

  clarify requirements for contingent considerations.

- **IFRS 7** ***(Financial instruments: disclosures)***: the amendments require qualitative disclosures in the context of the quantitative disclosure to help users to form an overall picture of the nature and extent of risks arising from financial instruments. Furthermore, the amendments clarify the required level of disclosure about credit risk and collateral held and provide relief from disclosure of renegotiated loans.

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IAS 1 (***Presentation of financial statements***): the amendments clarify that an entity may present the analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the separate financial statements.

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IAS 27 ***(Consolidated and separate financial statements)***: the amendments clarify the adoption requirements of the amendments made to IAS 21, IAS 28 and IAS 31 as a result of the revision of IAS 27 in 2008.

•

IAS 34 ***(Interim financial reporting)***: the amendments emphasize the principle that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. In particular, the amendments clarify how to apply this principle in respect of financial instruments and their fair values.

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IFRIC 13 (***Customer loyalty programmes)***: the amendments clarify how to measure the fair value for the award credits.

The application of the Improvements (issued in 2010) is not expected to have a material impact on the separate financial statements.

Note 3 Reclassifications

Beginning with the 2010 separate financial statements, in the statement of financial position, a part of the non-hedging derivatives originally classified in current assets and liabilities was reclassified to non-current assets/liabilities; these non-hedging derivatives are the consequence of the centralization of all the Group s derivatives in Telecom Italia S.p.A.. Such centralization, which took place in May 2009, was aimed at reducing the Group s credit exposure to the mark-to-market measurement of its derivatives and allowing for control to be exercised over all the derivative contracts within a single ISDA Master Agreement. The contracts signed with 29 banking counterparts were assigned by Telecom Italia Finance S.A. and Telecom Italia Capital S.A. to Telecom Italia S.p.A., which simultaneously activated intragroup derivative contracts under mirror deals with the same subsidiaries. The centralization of derivatives did not involve any change in the contract terms or in the original hedge accounting relationships which have remained unchanged and are carried by the same subsidiaries and the Group.

The reclassification of a part of the non-hedging derivatives from current to non-current assets/liabilities, as indicated below, was carried out to ensure a better representation in the separate financial statement of the above centralization for the purpose of the continuity of disclosure with that of the consolidated financial statements which reflect the classification of the same derivatives under hedge accounting taking into account their maturities.

The effects of the reclassification on the separate financial statements at December 31, 2009 can be summarized as follows:

(thousands of euros)
Original amount
Reclassification
Reclassified amount
Assets:

Non-current assets

Securities, financial receivables and other financial assets

567,647

1,491,830

2,059,477

Current assets

Financial receivables and other current financial assets

2,224,478

(1,491,830)

732,648

Liabilities:

Non-current liabilities

Non-current financial liabilities

38,740,187

1,491,830

40,232,017

Current liabilities

Current financial liabilities

9,305,029

(1,491,830)

7,813,199

Note 4 Goodwill

Goodwill at December 31, 2010 refers to the goodwill included in the domestic segment of Telecom Italia S.p.A., equal to 40,013,045 thousand euros. Such amount has remained unchanged compared to December 31, 2009 and includes also a good part of the goodwill allocated to the International Wholesale CGU for purposes of the impairment test in the consolidated financial statements.

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 (CGU) or groups of CGUs according to the maximum aggregation limit which cannot exceed the operating segment identified in accordance with IFRS 8. The allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes.

The impairment test regarded the domestic business segment of Telecom Italia S.p.A. which represents the CGU to which the major part of domestic goodwill is allocated, and International Wholesale. In the Telecom Italia S.p.A. separate financial statements, the International Wholesale CGU, tested for impairment, is composed of the investment in Telecom Italia Sparkle S.p.A. and the goodwill allocated consistently with the treatment in the consolidated financial statements equal to 415,285 thousand euros.

The impairment test consists of comparing the recoverable amount of the CGU to which the goodwill is allocated with the carrying amount of its operating assets. The recoverable amount is the higher of the value in use (present value of expected revenue flows) and the fair value less costs to sell (price obtainable on the market).

The value used to determine the recoverable amount of Telecom Italia S.p.A. (domestic business segment) and International Wholesale is the value in use, which has been calculated with the same parameters used for the impairment test of the Core Domestic group of CGUs and, respectively, of the International Wholesale CGU in the consolidated financial statements.

The basic assumptions for the calculation of the value in use are presented in the following table:

Telecom Italia S.p.A. Domestic Segment

International Wholesale

EBITDA margin (EBITDA/revenues)

during the period of the plan

EBITDA margin (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 (capex/revenues)

Capital expenditures rate (capex/revenues)

Cost of capital

Cost of capital

Long-term growth rate

Long-term growth rate

The estimate of the value in use of the Telecom Italia S.p.A. and the International Wholesale CGUs is based on the data in the 2011-2013 Plan. The expected flows beyond 2013 have been capitalized in perpetuity. The earnings flows used to estimate the value in use are the cash nopat, equal to (EBITDA Capex) x (1-Tc).

The nominal growth rate used to estimate the terminal value is the following:

Telecom Italia S.p.A. Domestic Segment	International Wholesale
-0.26%	-0.5%

This rate falls 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 presentation of the third-quarter 2010 results).

The cost of capital used for the estimate of the value in use of the Telecom Italia S.p.A. CGU was estimated by considering the following:

a)

the criterion for the CAPM - Capital Asset Pricing Model estimate (the criterion referred to in Annex A of IAS 36);

b)

the Beta coefficient 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 = 1.06);

c)

for comparison purposes, consideration was given to the values of the Weighted Average Cost of Capital (WACC) relating to the domestic segment, identified by the analysts who follow Telecom Italia shares in their reports published after the presentation of the third-quarter 2010 results. In particular, the capitalization rate (WACC-g) was used which is equal to the median of the rate used by equity analysts in their reports published after the third quarter of 2010. This rate expresses the implicit growth rate in the terminal value (g) of -0.26%. 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 earnings flow to be capitalized, a capital expenditures level (capex/revenues) was considered that is aligned with the median of the equity analysts.

For International Wholesale the same parameters as the Telecom Italia S.p.A. CGU were used but a full equity financial structure was considered since this is representative of the normal financial structure of the business.

On the basis of these elements, the weighted average cost of capital and the capitalization rate (WACC   g) have

been estimated for each CGU as follows:

	Telecom Italia S.p.A. Domestic Segment	**International Wholesale**
	%	**%**
WACC post-tax	7.90	9.77
WACC post-tax g	8.16	

10.27

WACC pre-tax

11.60

14.48

WACC pre-tax
g

11.86

14.98

The values in use exceed the relative carrying amounts at December 31, 2010 by the following amounts:

	Excess values in use over carrying amounts (millions of euros)
Telecom Italia S.p.A. Domestic Segment	4,099
International Wholesale	204

For purposes of the sensitivity analysis for the Telecom Italia S.p.A. CGU and the International Wholesale CGU, four key variables have been considered: the pretax 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).

Value of key variables used to estimate the value in use

	Telecom Italia S.p.A. Domestic Segment	**International Wholesale**
	%	**%**
Pre-tax discount rate	11.60	14.48
Long-term growth rate (g)	-0.26	-0.50
Compound Annual Growth Rate (CAGR) of EBITDA	1.60*	-5.15
Capital expenditures rate (Capex/Revenues)		

from 15.1 to 15.4

from 6.0 to 7.5

* This growth rate refers to EBITDA removed of the effects indicated in IAS 36.45, a.

Changes in key variables needed to render the recoverable amount equal to the carrying amount	Domestic segment TI S.p.A.	International Wholesale
	%	%
Pre-tax discount rate	0.92	3.58
Long-term growth rate (g)	-1.17	-4.64
Compound Annual Growth Rate (CAGR) of EBITDA	-2.02	

	-6.03
Capital expenditures rate (Capex/Revenues)	
	2.63
	2.27

Note 5 Intangible assets with a finite useful life

Intangible assets with a finite useful life decreased 380,217 thousand euros compared to December 31, 2009. Details on the composition and movements during the year are as follows:

(thousands of euros)
12/31/2008
Additions
Amortization
(Impairment losses)/ reversals
Disposals
Other
changes
12/31/2009
Industrial patents and intellectual property rights

2,120,881

840,700

(1,338,501)

(4,071)

303,501

1,922,510

Concessions, licenses, trademarks and similar rights

1,804,023

99,860

(140,054)

(1,035)

25

1,762,819

Other intangible assets

144,416

170,206

(166,283)

148,339

Work in progress and advance payments
439,629
414,763
(36,389)
(301,572)
516,431

Total
4,508,949
1,525,529
(1,644,838)
-
(41,495)
1,954
4,350,099

(thousands of euros)
12/31/2009
Contribution of business to SSC
Additions
Amortization
(Impairment losses)/

reversals

Disposals

Other changes

12/31/2010

Industrial patents and intellectual property rights

1,922,510

(7,327)

770,975

(1,290,710)

(1,122)

426,716

1,821,042

Concessions, licenses,

trademarks and similar rights

1,762,819

8,472

(148,342)

17,389

1,640,338

Other intangible assets

148,339

174,391

(157,534)

(2)

165,194

Work in progress and advance payments

516,431

276,362

-
(4,500)
(621)
(444,364)
343,308
Total
4,350,099
(7,327)
1,230,200
(1,596,586)
(4,500)
(1,743)
(261)
3,969,882

The amounts at December 31, 2010 reflect the contribution of the IT segment to the subsidiary SSC, operational since May 1, 2010. Specifically, Telecom Italia transferred the carrying amounts of the business segment represented by the IT Operations function which offers services for software development, execution of IT applications and running of infrastructures.

Additions in 2010 total 1,230,200 thousand euros and include 154,878 thousand euros of internally generated assets, decreasing 52,124 thousand euros compared to December 31, 2009, mostly as a result of the contribution of internal activities to the subsidiary SSC.

Industrial patents and intellectual property rights consist mostly of applications software purchased outright and user license rights acquired for an indefinite period of time, amortized over the period of useful benefit, estimated in three years, with the exception of patents which are amortized over five years. This line item decreased by 7,327 thousand euros following the contribution of the IT business to SSC.

Concessions, licenses, trademarks and similar rights mainly refer to the remaining unamortized cost of licenses for mobile and fixed telecommunications services. The UMTS license has an unamortized balance at the end of 2010 of 1,477,067 thousand euros and is being amortized over 18 years on the basis of the residual period of benefit; the amortization charge for 2010 is 134,279 thousand euros. The UMTS 2100 MHz license freed by the former IPSE and purchased in 2009, shows an unamortized balance of 80,979 thousand euros at the end of 2010 and is being amortized over 12 years on the basis of the residual period of benefit; the amortization charge for 2010 is 7,362 thousand euros.

The Wireless Local Loop license has an unamortized balance at the end of 2010 of 6,712 thousand euros and is being amortized over 15 years on the basis of the residual period of benefit; the amortization charge for 2010 is 1,119 thousand euros. The license for WiMax service has an unamortized balance of 11,432 thousand euros and is being amortized over 15 years; the amortization charge for 2010 is 921 thousand euros.

Other intangible assets mainly include the capitalization of subscriber acquisition costs of the Business and Consumer segments in the mobile telephony area; the unamortized cost at the end of 2010 is 131,817 thousand euros. The amortization of these capitalized costs is generally taken over a 24-month period, corresponding to the minimum duration of the contracts signed with the clientele. Other intangible assets also include expenses (entrance fees and contributions for goodwill) incurred in connection with the start of the stores project . The scope of the project aims to renovate the layout of the direct and indirect points of sale and increase the number of franchised and owned stores through winback policies, opening new stores and upgrading the already-existing TIM monobrand at appropriate locations. The project also calls for the switch-over from Centro TIM/Alice and Il Telefonino/Alice signs to TIM signs only. The unamortized cost at the end of 2010 is 33,376 thousand euros. These costs are being amortized over a period of three years, corresponding to the minimum duration of the dealer agreements.

Work in progress and advance payments decreased 173,123 thousand euros, mainly as a result of bringing into use assets in progress acquired in prior years.

The writedowns of work in progress in 2010 increased 4,500 thousand euros (SAP 2007 project) and refers to the development of the information systems no longer in use.

Amortization and impairment losses are recorded in the separate income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2010 and 2009 can be summarized as follows:

12/31/2010
(thousands of euros)
Gross carrying amount
Accumulated impairment losses
Accumulated amortization
Net carrying amount

Industrial patents and intellectual property rights	
	10,576,928
	(6,765)
	(8,749,121)
	1,821,042
Concessions, licenses, trademarks and similar rights	
	2,611,442
	(971,105)
	1,640,337
Other intangible assets	
	347,718
	(182,524)
	165,194
Work in progress and advance payments	

351,939

(8,631)

343,308

Total

13,888,027

(15,396)

(9,902,750)

3,969,881

12/31/2009

(thousands of euros)

Gross carrying amount

Accumulated impairment losses

Accumulated amortization

Net carrying amount

Industrial patents and intellectual property rights
9,850,343
(14,302)
(7,913,531)
1,922,510
Concessions, licenses, trademarks and similar rights
2,585,741
(822,922)
1,762,819
Other intangible assets
368,632
(220,293)
148,339
Work in progress and advance payments
520,816
(4,385)

516,431

Total

13,325,532

(18,687)

(8,956,746)

4,350,099

Impairment losses on intangible assets include a provision charge in 2010 for 4,500 thousand euros (SAP 2007 Project) while the reduction in accumulated impairment losses in industrial patents and intellectual property rights for 7,537 thousand euros relates to the elimination of software connected with the prior years acquisition of certain former Blu operations.

Industrial patents and intellectual property rights include gross disposals for the elimination or rewriting of completely amortized network software for 450,000 thousand euros and the contribution of the IT business to the subsidiary SSC for 17,703 thousand euros.

Note 6 Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased 660,515 thousand euros compared to December 31, 2009. Details on the composition and movements during the year are as follows:

(thousands of euros)

12/31/2008	Additions	Depreciation	(Impairment losses)/reversals	Disposals	Other changes	12/31/2009

Land
122,078
14
(479)
72
121,685
Buildings (civil and industrial)
437,074
2,804
(39,195)
(1,718)
4,333
403,298
Plant and equipment
9,971,878
1,501,370
(2,342,016)

(22,568)

390,483

9,499,147

Manufacturing and distribution equipment

33,850

5,036

(13,365)

2,096

27,617

Other

582,607

63,146

(143,123)

(932)

(159,811)

341,887

Construction in progress and advance payments

495,077

249,803

(5,353)

(19,791)

(229,191)

490,545

Total

11,642,564

1,822,173

(2,537,699)

(5,353)

(45,488)

7,982

10,884,179

(thousands of euros)

12/31/2009

Contribution of business to SSC

Additions

Depreciation

(Impairment losses)/ reversals

Disposals

Other changes

12/31/2010

Land	
	121,685
	20
	(100)
	(63)
	121,542
Buildings (civil and industrial)	
	403,298
	2,694
	(39,493)
	(2,183)

39,808

404,124

Plant and equipment

9,499,147

1,316,774

(2,207,301)

(8,795)

188,123

8,787,948

Manufacturing and distribution equipment

27,617

6,103

(10,796)

2,379

25,303

Other

341,887

(13,964)

67,682

(137,074)
(138)
45,485
303,878
Construction in progress and advance payments
490,545
335,328
(4,044)
(1,173)
(239,787)
580,869
Total
10,884,179
(13,964)
1,728,601
(2,394,664)
(4,044)
(12,389)
35,945
10,223,664

The amounts at December 31, 2010 reflect the contribution of the IT segment to the subsidiary SSC, operational since May 1, 2010. Specifically, Telecom Italia transferred the carrying amounts of the business segment represented by the IT Operations function which offers services for software development, execution of IT applications and running of infrastructures.

Additions in 2010 include 232,865 thousand euros of internally generated assets (an increase of 25,041 thousand euros compared to December 31, 2009). Impairment losses refer to the adjustment to estimated realizable value of materials destined for rent, difficult to make use of and in the process of being replaced with technologically more advanced materials.

Following the contribution of the IT business to the subsidiary SSC, fixed assets, mainly servers and workstations, decreased 13,964 thousand euros.

Other changes mainly include:

.

reclassifications from construction in progress to tangible assets in use in 2010;

.

reclassification from buildings under finance leases to owned buildings for a property under a finance lease purchased in 2010 for 39,218 thousand euros;

.

reclassification of leasehold improvements previously classified under construction in progress in assets held under finance leases for 20,856 thousand euros;

.

effect of the revised estimate of the provision for asset retirement obligations for a negative 25,874 thousand euros.

Depreciation is calculated using the straight-line method over the remaining useful lives of the assets in accordance with the depreciation plan approved in 2006 and confirmed/modified annually in applying the useful lives by single class of fixed asset.

Land, including land pertaining to buildings, is not depreciated.

The effects of such changes are recognized in the separate income statement prospectively.

The minimum and maximum depreciation rates used in 2010 and 2009 (% change in the estimated useful life) are the following:

Buildings (civil and industrial)	3.33%
Plant and equipment	3% - 50%
Manufacturing and distribution equipment	20%

Other	11% - 33%

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2010 and 2009 can be summarized as follows:

12/31/2010 (thousands of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	122,307	(765)		**121,542**

Buildings (civil and industrial)

1,228,936

(1,296)

(823,516)

404,124

Plant and equipment

55,196,466

(4,930)

(46,403,588)

8,787,948

Manufacturing and distribution equipment

246,933

(221,630)

25,303

Other

2,405,753

(2,184)

(2,099,691)

303,878

Construction in progress and advance payments

581,733
(864)
580,869
Total
59,782,128
(10,039)
(49,548,425)
10,223,664

12/31/2009 (thousands of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	**122,450**	(765)		**121,685**
Buildings (civil and industrial)	**1,183,761**	(1,439)		

(779,024)

403,298

Plant and equipment

55,683,988

(20,445)

(46,164,396)

9,499,147

Manufacturing and distribution equipment

248,123

(220,506)

27,617

Other

2,398,187

(8,020)

(2,048,280)

341,887

Construction in progress and advance payments

502,076

(11,531)

490,545

Total
60,138,585
(42,200)
(49,212,206)
10,884,179

The gross carrying amount of disposals recorded in 2010 is 2,113,888 thousand euros, with a general breakdown as follows: Land and buildings for 3,178 thousand euros, Plant and equipment for 2,002,085 thousand euros, Equipment for 9,674 thousand euros and Other for 99,883 thousand euros.

In 2010, accumulated impairment losses decreased 32,161 thousand euros due to the disposal of assets written down (principally switching systems).

Assets held under finance leases

Assets held under finance leases decreased 117,557 thousand euros compared to December 31, 2009. Details of the composition and movements during the year are as follows:

(thousands of euros)

12/31/2008
Additions
Depreciation
(Impairment losses)/ reversals
Disposals
Other changes
12/31/2009

Buildings (civil and industrial)
1,301,440
29,959
(108,575)
(109)
22,639
1,245,354
Plant and equipment
2
(2)
-

Other	Construction in progress and advance payments	**Total**
15,246	**52,372**	**1,369,060**
3,658	24,922	**58,539**
(12,295)		**(120,872)**
		-
(2)	247	**138**
	(34,682)	**(12,045)**
6,607	**42,859**	**1,294,820**

(thousands of euros)	**12/31/2009**	**Additions**	**Depreciation**	**(Impairment losses)/ reversals**	**Disposals**	**Other changes**	**12/31/2010**
Buildings (civil and industrial)	**1,245,354**	19,248	(109,781)		(3,399)		

(26,742)

1,124,680

Plant and equipment

-

-

Other

6,607

9,972

(6,197)

601

10,983

Construction in progress and advance payments

42,859

30,016

(31,275)

41,600

Total

1,294,820

59,236

(115,978)

-

(3,399)

(57,416)

1,177,263

Depreciation and impairment losses are recorded in the separate income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2010 and 2009 can be summarized as follows

12/31/2010				
(thousands of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,039,799	(27,311)	(887,808)	**1,124,680**
Plant and equipment				

Other

79,433

(68,450)

10,983

Construction in progress and advance payments

41,600

41,600

Total

2,160,832

(27,311)

(956,258)

1,177,263

12/31/2009

(thousands of euros)

Gross carrying

	amount
	Accumulated impairment losses
	Accumulated depreciation
	Net carrying amount
Buildings (civil and industrial)	
	2,067,133
	(27,310)
	(794,469)
	1,245,354
Plant and equipment	
	-
Other	
	69,459

(62,852)

6,607

Construction in progress and advance payments

42,859

42,859

Total

2,179,451

(27,310)

(857,321)

1,294,820

The reduction in the gross carrying amount of industrial buildings is principally due to the reclassification to industrial buildings (originally recorded in assets held under finance leases) of the purchase price at the end of the term of the already leased building located in Turin, Via Cavalli 6.

At December 31, 2010, lease payments due in future years and their present value are as follows:

12/31/2010

12/31/2009

(thousands of euros)

Minimum lease payments

	Present value of minimum lease payments	Minimum lease payments	Minimum lease payments	
Within 1 year	239,238	231,897	228,075	216,711
From 2 to 5 years	759,208	587,837	798,638	603,800
Beyond 5 years	1,098,478	573,248	1,261,508	635,477

Total
2,096,924
1,392,982
2,288,221
1,455,988

(thousands of euros)	12/31/2010	12/31/2009
Future net minimum lease payments	2,096,924	2,288,221
Interest portion	(703,942)	(832,233)
Present value of lease payments	**1,392,982**	**1,455,988**
Finance lease liabilities[1]	1,648,345	1,780,602
Financial receivables for lessors net investments [2]	(255,363)	(324,614)

Total net finance lease liabilities

1,392,982

1,455,988

(1) These include financial payables to Teleleasing of 307,427 thousand euros (346,101 thousand euros at December 31, 2009) for direct and indirect lease transactions.

(2) These refer to the present value of installments receivable from customers on direct and indirect lease transactions with Teleleasing, net of the relative allowance for writedowns.

At December 31, 2010, the ISTAT revaluation of lease payments was 25,277 thousand euros (24,060 thousand euros at December 31, 2009).

Note 7 Other non-current assets

Other non-current assets decreased 367,683 thousand euros compared to December 31, 2009 and include:

(thousands of euros)

12/31/2010	*of which IAS 39 Financial Instruments*	**12/31/2009 Reclassified (*)**	*of which IAS 39 Financial Instruments*

Investments in:				
Subsidiaries	9,737,814		10,078,380	
Associates and joint ventures	25,709		41,955	
Other companies	39,832	*39,832*	44,400	*44,400*
	9,803,355	***39,832***		

10,164,735

44,400

Financial receivables and other non-current financial assets

2,099,373

2,099,373

2,059,477

2,059,477

Miscellaneous receivables and other non-current assets

Miscellaneous receivables from subsidiaries

8,767

7,681

Miscellaneous receivables from associates

15,400

15,400

25,403

25,403

Other receivables

5,260

5,228

5,232

5,232

Medium/long-term prepaid expenses

482,806

486,580

512,233

20,628

524,896

30,635

Deferred tax assets (**)

918,072

951,608

Total

13,333,033
2,159,833
13,700,716
2,134,512

(* After reclassification of a part of non-hedging derivatives, originally classified in current assets/liabilities, to non-current assets/liabilities. Further details are provided in the Note "Reclassifications".

(**) Analyzed in the Note Deferred tax assets and deferred tax liabilities .

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The Note Investments provides details of changes in 2010 for each investment and the values at the beginning and end of the year and also the list of investments in subsidiaries, associates and joint ventures in compliance with article 2427 of the Italian Civil Code.

Financial receivables and other non-current financial assets increased 39,896 thousand euros. The composition is as follows:

(thousands of euros)	**12/31/2010**	**12/31/2009 Reclassified (*)**
Financial receivables from subsidiaries	100,062	103,303
Financial receivables from associates and joint ventures	-	25
Financial receivables from other related parties		

-

2,470

Financial receivables for lessors net investments

192,220

217,083

Receivables from employees

39,405

49,368

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature

450,270

182,918

Non-hedging derivatives

1,302,547

1,491,830

Other financial receivables

1,359

4,359

Prepaid expenses

	13,510	8,121
Total	**2,099,373**	**2,059,477**

(*) After reclassification of a part of non-hedging derivatives, originally classified in current assets/liabilities, to non-current assets/liabilities. Further details are provided in the Note "Reclassifications".

Financial receivables from subsidiaries refer mainly to a loan made to Telecom Italia Media (100,001 thousand euros) by the European Investment Bank (EIB) for a capital expenditures program aimed at expanding the infrastructures of the Digital Terrestrial Network. The loan will be repaid on December 31, 2013.

Financial receivables for lessors net investments relate to:

- indirect contracts, that is, lease contracts stipulated by Teleleasing directly with customers and of which Telecom Italia is the guarantor, for 182,662 thousand euros (201,786 thousand euros at December 31, 2009), of which 176,143 thousand euros is for receivables due between the second and fifth year (195,532 thousand euros at December 31, 2009) and 6,519 thousand euros for receivables due beyond the fifth year (6,254 thousand euros at December 31, 2009);

- direct contracts, that is, rent contracts with the rendering of accessory services under the so-called full rent formula. The medium/long-term portion of such contracts is 9,558 thousand euros (15,297 thousand euros at December 31, 2009, all due between the second and fifth year), of which 8,553 thousand euros is for receivables due between the second and fifth year and 1,005 thousand for receivables due beyond the fifth year.

The total amount (non-current and current portion) of these financial receivables for lessors net investments is as follows:

(thousands of euros)		
	12/31/2010	**12/31/2009**

Non-current portion	192,220	217,083
Current portion	63,144	107,531
Total	**255,364**	**324,614**

Receivables from employees refer to the remaining amount due on loans granted.

Hedging derivatives relating to hedged items classified in non-current assets/liabilities of a financial nature refer to the mark-to-market component and include fair value hedges put into place with the Mediobanca group

(7,287 thousand euros) and with Telecom Italia Finance S.A. (11,850 thousand euros). Further details are provided in the Note Derivatives .

Non-hedging derivatives include the measurement of transactions which Telecom Italia S.p.A. carries out on behalf of companies of the Group in its exclusive role as the centralized treasury function. This item is offset in full by the corresponding item classified in non-current financial liabilities. They include non-hedging derivatives put into place with Banca Intesa (71,023 thousand euros), the Mediobanca group (20,344 thousand euros) and Telecom Italia Capital S.A. (360,568 thousand euros).

Further details are provided in the Note Derivatives .

Miscellaneous receivables and other non-current assets amount to 512,233 thousand euros, decreasing 12,663 thousand euros. In particular:

.

receivables from associates refer to loans made to Aree Urbane and are presented net of the provision for writedowns to adjust the receivable to estimated realizable value;

.

prepaid expenses are related to the deferral of costs connected with the recognition of revenues.

Note 8 Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

(thousands of euros)	12/31/2010	12/31/2009
Deferred tax assets	918,071	951,608
Deferred tax liabilities	(1,190)	(42,479)
Total	**916,881**	**909,129**

The presentation of deferred tax assets and liabilities in the separate financial statements takes account of offsets to the extent that such offsets are legally enforceable; the composition of the gross amounts is presented below:

(thousands of euros)	12/31/2010

		12/31/2009
Deferred tax assets	1,018,058	1,043,115
Deferred tax liabilities	(101,177)	(133,986)
Total	**916,881**	**909,129**

Based on recovery assumptions, it is estimated that such net balance will reverse by next year for about 360 million euros.

Utilizations and new accruals of deferred tax assets and liabilities gave rise to a total expense recorded in income for the year ended December 31, 2010 of 11,456 thousand euros (of which 2,163 thousand euros relates to prior years). Further details are provided in the Note Income tax expense .

Net deferred tax assets also reflect the taxes recognized in equity in 2010 for 19,208 thousand euros and which mainly refer to the change in cash flow hedge derivatives, as well as convertible bonds.

Upon presentation of the tax return for the year 2008, the company took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the derivation regime and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 dated November 29, 2008; this realignment - which provides for the reabsorption of the relative net deductible differences over five years starting in 2009 and up to 2013 - in equal amounts will result in an absorption of net deferred tax assets of approximately 60 million euros per year. At December 31, 2010, the related unused tax credit was 193 million euros (246 million euros at December 31, 2009).

An analysis of deferred tax assets and liabilities by type of temporary difference at December 31, 2010 and 2009 is the following:

(thousands of euros)	12/31/2010	12/31/2009
Deferred tax assets:		
- Writedowns	3,336	4,545
- Pension fund integration, Law 58/92	38,983	72,404
- Provisions for risks and charges	162,487	130,424

-

Provision for bad debts

193,028

181,331

-

Derivatives

245,823

254,557

-

Capital grants

12,588

17,189

-

Taxed amortization and depreciation

140,196

113,822

-

Other deferred tax assets

28,522

23,306

-

Unused tax credit (realignment, Leg. Decree

185/08)

193,095

245,537

Total

1,018,058

1,043,115

Deferred tax liabilities:

-

Accelerated depreciation

(22,606)

(30,541)

-

Deferred gains

(4,238)

(18,638)

-

Bonds

-

(10,500)

-

Discounting of provision for employee severance

indemnities	(27,910)	(30,215)	-
Derivatives	(6,039)	(4,964)	-
Land and buildings	(18,217)	(18,235)	-
Other deferred tax liabilities	(22,167)	(20,893)	
Total	**(101,177)**	**(133,986)**	
Total net deferred tax assets (liabilities)	**916,881**	**909,129**	

At December 31, 2010, the Company has tax-suspended equity reserves of 2,760,038 thousand euros, subject to taxation in the event of distribution and/or utilization, on which deferred taxes have not been provided since their distribution or utilization is not foreseen.

Note 9 Inventories

Inventories amount to 112,129 thousand euros at December 31, 2010, decreasing 55,148 thousand euros compared to December 31, 2009. They mainly consist of equipment, handsets and the relative accessories for fixed-line and mobile telecommunications.

Writedowns of inventories taken in 2010 total 4,596 thousand euros and mainly refer to the adjustment to estimated realizable value of products being marketed for fixed and mobile telecommunications.

No inventories are pledged as collateral.

Note 10 Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets decreased 658,443 thousand euros compared to December 31, 2009 and are composed of the following:

(thousands of euros)

	12/31/2010	*of which IAS 39 Financial Instruments*	**12/31/2009**	*of which IAS 39 Financial Instruments*
Amounts due on construction contracts	**35,136**		25,480	
Trade receivables:				

Receivables from customers	2,800,952	*2,800,952*	3,103,532	*3,103,532*
Receivables from other telecommunications operators	1,243,679	*1,243,679*	1,228,643	*1,228,643*
Receivables from subsidiaries	193,637	*193,637*	170,098	*170,098*
Receivables from associates and joint ventures	37,267	*37,267*	91,175	*91,175*

Receivables from other related parties	
	71,390
	71,390
	71,649
	71,649
Customer collections pending credit	
	24,779
	24,779
	29,682
	29,682
	4,371,704
	4,371,704
	4,694,779
	4,694,779
Miscellaneous receivables and other current assets:	
Receivables from subsidiaries	
	42,963

	176
	367,237
Receivables from associates	
	7
	1
	63
	63
Receivables from other related parties	
	52,418
	52,414
	17,571
	17,571
Other receivables	
	376,669
	155.850
	454,561
	182,177
Trade and miscellaneous prepaid expenses	
	393,559
	371,208

865,616
208,441
1,210,640
199,811

Total
5,272,456
4,580,145
5,930,899
4,894,590

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The ageing of financial instruments included in trade and miscellaneous receivables and other current assets at December 31, 2010 and December 31, 2009 is as follows:

Overdue:

(thousands of euros)

	12/31/2010	*current*	**0-90 days**	**91-180 days**	**181-365 days**	**More than 365 days**
Trade and miscellaneous receivables and other current assets	**4,580,145**	3,470,008	201,707	108,600	142,960	656,870

(thousands of euros)	12/31/2009	current	Overdue: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	**4,894,590**					

3,895,167

189,981

101,732

143,748

563,962

The increase in receivables overdue more than 365 days compared to December 31, 2009 is mainly due to higher collection times on credit positions considered in any case without risks in terms of collectibility.

Trade receivables amount to 4,371,704 thousand euros (4,694,779 thousand euros at December 31, 2009) and are net of the provision for bad debts of 593,539 thousand euros (602,103 thousand euros at December 31, 2009).

Movements in the provision for bad debts are as follows:

(thousands of euros)	**2010**	**2009**
At January 1	**602,103**	**561,389**
Provision charges to the separate income statement	180,668	281,612
Utilization	(189,232)	(240,898)
At December 31	**593,539**	**602,103**

The provision for bad debts refers to writedowns of individual receivables for 334,962 thousand euros (367,241 thousand euros at December 31, 2009) and writedowns of overall receivables for 258,576 thousand euros

(234,862 thousand euros at December 31, 2009). Accruals to the provision for bad debts are recorded for an exact amount on credit positions that present an element of individual risk. Instead, on credit positions that do not present such characteristics, accruals are recorded by customer segment on the basis of the average uncollectibility estimated on the basis of statistics.

Receivables from customers stand at 2,800,952 thousand euros, decreasing 302,580 thousand euros compared to December 31, 2009, mainly as a result of the contraction in sales.

Receivables from subsidiaries amount to 193,637 thousand euros, increasing 23,539 thousand euros compared to December 31, 2009, and mainly refer to TLC services rendered to Matrix (54,695 thousand euros), Telecom Italia Sparkle (43,352 thousand euros) and Pathnet (34,082 thousand euros).

Receivable from associates and joint ventures total 37,267 thousand euros and particularly refer to Teleleasing (33,149 thousand euros) for the sale of TLC equipment and services.

Receivables from other related parties amount to 71,390 thousand euros and refer in particular to balances with the Banca Intesa group (36,434 thousand euros), Assicurazioni Generali (21,188 thousand euros) and Telefónica (11,795 thousand euros).

Miscellaneous receivables and other current assets amount to 865,616 thousand euros (1,210,640 thousand euros at December 31, 2009) and are net of a provision for bad debts of 54,853 thousand euros. Specifically, receivables from subsidiaries principally refer to credit positions connected with the Group VAT procedure and with Group income tax consolidation. The reduction is principally due to the payment of VAT to the tax authorities in July for 327,354 thousand euros corresponding to the unlawful deduction of VAT by the subsidiary Telecom Italia Sparkle in the years 2005, 2006 and 2007, plus interest, under the Group VAT procedure.

Receivables from other related parties relate to factoring transactions for dealer receivables on mobile equipment sales, carried out with Mediofactoring, a company in the Banca Intesa group.

Trade and miscellaneous prepaid expenses principally pertain to building leases (102,890 thousand euros), rentals and maintenance (58,377 thousand euro), insurance premiums (14,754 thousand euros) and deferrals of costs in relation to the recognition of revenues in accordance with IAS 18 (206,847 thousand euros).

Other receivables amount to 376,669 thousand euros (454,561 thousand euros at December 31, 2009). Details are as follows:

	(thousands of euros)
	12/31/2010
	12/31/2009

Advances to suppliers	12,992	39,995
Receivables from employees	23,211	23,075
Tax receivables	36,961	37,030
Sundry receivables	303,505	354,461
Total	**376,669**	**454,561**

Tax receivables totaling 36,961 thousand euros basically include credits resulting from tax returns, other taxes and also VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables particularly include:

.

receivables from other factoring companies (17,387 thousand euros);

.

receivables for the Universal Service (52,607 thousand euros);

.

receivables from the Italian state and the European Union (36,145 thousand euros) for grants relating to research and training projects.

Note 11 Current income tax receivables

Current income tax receivables increased from 213 thousand euros at December 31, 2009 to 226 thousand euros.

Note 12 Securities other than investments (current assets)

Securities other than investments decreased 162,067 thousand euros compared to December 31, 2009. The composition is as follows:

(thousands of euros)

12/31/2010

12/31/2009

Held-to-maturity financial assets

Unlisted securities other than investments held-to-maturity

-

-

Available-for-sale financial assets

Listed securities other than investments available-for-sale, due after three months

1,159,108

921,057

Financial assets at fair value through profit or loss

Listed securities other than investments held for trading

-

400,118

Total

1,159,108

1,321,175

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 , consist of Italian Treasury Bills with an A rating by S&P s recorded at market value.

Note 13 Financial receivables and other current financial assets

Financial receivables and other current financial assets decreased 130,312 thousand euros compared to December 31, 2009 and are composed as follows:

(thousands of euros)

	12/31/2010	**12/31/2009 Reclassified (*)**
Financial receivables for lessors net investments	63,144	107,531
Receivables from employees	14,098	8,256
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	240,509	200,573
Non-hedging derivatives	273,220	408,674
Financial receivables from subsidiaries		

	9,932	6,097
Financial receivables from associates and joint ventures	5	4
Other financial receivables	999	1,231
Prepaid expenses	429	282
Total	**602,336**	**732,648**

(*) After reclassification of a part of non-hedging derivatives, originally classified in current assets/liabilities, to non-current assets/liabilities. Further details are provided in the Note "Reclassifications".

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Financial receivables for lessors net investments refer to:

.

indirect contracts, that is, lease contracts stipulated by Teleleasing directly with customers and of which Telecom Italia is the guarantor, for 50,552 thousand euros (91,973 thousand euros at December 31, 2009);

.

direct contracts, that is, rent contracts with the rendering of accessory services under the so-called full rent formula. The current portion of such contracts is 12,592 thousand euros (15,558 thousand euros at December 31, 2009).

Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature mainly consist of accrued income on derivative contracts. They comprise fair value hedges put into place with the Mediobanca group

(12,564 thousand euros) and with Telecom Italia Finance S.A. (37,315 thousand euros). Further details are provided in the Note Derivatives .

Non-hedging derivatives total 273,220 thousand euros (408,674 thousand euros at December 31, 2009) and include the measurement of transactions which Telecom Italia S.p.A. carries out on behalf of the companies of the Group in its exclusive role as the centralized treasury function. This line item is offset in full by the corresponding item classified in current financial liabilities. They include non-hedging derivatives put into place with Banca Intesa (9,378 thousand euros), the Mediobanca group (786 thousand euros), Telecom Italia Capital S.A. (143,636 thousand euros) and Telecom Italia Finance S.A. (424 thousand euros). Further details are provided in the Note Derivatives .

Note 14 Cash and cash equivalents

Cash and cash equivalents decreased 1,473,491 thousand euros compared to December 31, 2009 and are composed as follows:

(thousands of euros)

	12/31/2010	12/31/2009
Liquid assets with banks, financial institutions and post offices	2,751,813	4,203,991
Checks, cash and other receivables and deposits for cash flexibility	694	713
Receivables from subsidiaries	10,545	31,839
Total	**2,763,052**	**4,236,543**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Liquid assets with banks, financial institutions and post offices decreased 1,452,178 thousand euros compared to December 31, 2009.

The different technical forms used for the investment of liquidity as of December 31, 2010 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterpart risks: investments are made with leading high-credit-quality banks and financial institutions with a rating of at least A-;
- country risk: investments are made in major European financial markets.

Note 15 Equity

Equity is composed as follows:

(thousands of euros)	12/31/2010	12/31/2009
Share capital issued	**10,688,746**	**10,673,865**

Less: treasury shares	(20,720)	(20,720)
Share capital	**10,668,026**	**10,653,145**
Paid-in capital	**1,697,292**	**1,689,446**
Legal reserve	**2,134,773**	**2,134,760**
Other reserves:		
Reserve L.D. 124/93 ex art. 13	391	391
Reserve D.P.R. 917/86 ex art. 74	5,750	5,750
Reserve for capital grants	602,259	602,259

Revaluation reserve ex Law 413/91	1,129	1,129
Reserve Law 266/2005 ex art. 1, para. 469 - Law 342/2000 ex art. 14	315,842	315,842
Other	2,435,360	2,436,480
	3,360,731	**3,361,851**
Retained earnings, including profit for the year	7,703,045	**5,228,736**
Total	**25,563,867**	**23,067,938**

Movements in **share capital** during 2010 are presented in the following tables:

Reconciliation between the number of shares outstanding at December 31, 2009 and December 31, 2010

(number of shares of par value 0.55 euros)	**at 12/31/2009**	Shares issued for plans destined for employees	**at 12/31/2010**	% of capital share
Ordinary shares issued (a)	13,380,906,939	27,056,139		

13,407,963,078

68.99

less: treasury shares

(b)

(37,672,014)

-

(37,672,014)

Ordinary shares outstanding

(c)

13,343,234,925

27,056,139

13,370,291,064

Savings shares issued and outstanding

(d)

6,026,120,661

-

6,026,120,661

31.01

Total shares issued

(a+d)

19,407,027,600

27,056,139

19,434,083,739

100.00

Total shares outstanding

(c+d)

19,369,355,586

27,056,139

19,396,411,725

Reconciliation between the value of shares outstanding at December 31, 2009 and December 31, 2010

(thousands of euros)		Share capital at 12/31/2009	Change in share capital as a result of plans destined for employees	Share capital at 12/31/2010
Ordinary shares issued	(a)	7,359,499	14,881	7,374,380
less: treasury shares	(b)	(20,720)	-	(20,720)
Ordinary shares outstanding				

(c)

7,338,779

14,881

7,353,660

Savings shares issued and outstanding

(d)

3,314,366

-

3,314,366

Total share capital issued

(a+d)

10,673,865

14,881

10,688,746

Total share capital outstanding
(c+d)
10,653,145
14,881
10,668,026

Share capital increased 14,881 thousand euros due to the effect of the Broad-based Employee Share Ownership Plan 2010-2014 , approved by the shareholders meeting held on April 29, 2010. Further details are provided in the following paragraphs and in the Note Equity compensation plans .

The total amount of ordinary treasury shares at December 31, 2010 is 40,008 thousand euros and recorded as follows: the part relating to the par value (20,720 thousand euros) is recognized as a deduction from share capital issued and the remaining amount, as a deduction from Other reserves.

Share capital structure

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 Company 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 adequate diversification of the sources of funding and 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), taking care to minimize the refinancing risk.

The remuneration of risk capital 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 Company 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 separate 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 distribution of which is approved by the shareholders meeting, 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 is 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 separate 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 the Company, the savings shares have a pre-emptive right in the reimbursement of capital for the entire par value;

.

in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask the Company 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.

Share capital carries a restriction on tax suspension for an amount of 1,191,379 thousand euros.

***

Paid-in capital is 1,697,292 thousand euros at December 31, 2010, increasing 7,846 thousand euros compared to December 31, 2009. The change is due to the increase in share capital servicing the Broad-based Employee Share Ownership Plan 2010-2014 approved by the shareholders meeting held on April 29, 2010.

The **Legal reserve** totals 2,134,773 thousand euros at December 31, 2010, increasing 12 thousand euros compared to December 31, 2009, following the resolution passed by the shareholders meeting held on April 29, 2010 approving the annual 2009 separate financial statements. The legal reserve carries a restriction on tax suspension, as do some reserves of merged companies, up to the amount of 1,834,667 thousand euros.

Other reserves amount in total to 3,360,731 thousand euros at December 31, 2010, decreasing 1,120 thousand euros compared to December 31, 2009. The various reserves are analyzed as follows:

.

Reserve ex art. 13, L.D. 124/1993 (391 thousand euros): unchanged from December 31, 2009;

.

Reserve ex art. 74, D.P.R. 917/1986 (5,750 thousand euros): unchanged from December 31, 2009;

.

Reserve for capital grants (602,259 thousand euros): unchanged from December 31, 2009;

.

Revaluation reserve ex Law 413 dated December 30, 1991 (1,129 thousand euros): unchanged from December 31, 2009;

.

Reserve, ex article 1, paragraph 469, Law 266/2005 and ex article 14, Law 342/2000 (315,842 thousand euros): unchanged from December 31, 2009 and deriving from the reclassification of the merger surplus reserve originating from the merger of Tim Italia, in order to set up the same tax-suspended reserve already recorded in the separate financial statements at December 31, 2005 of the merged company;

.

Reserve for cash flow hedges (-640,523 thousand euros): a decrease of 21,788 thousand euros compared to December 31, 2009. This reserve is related to the accounting of cash flow hedge transactions. In particular, it refers to unrealized gains and losses, net of the related tax effect, on the fair value adjustment of a financial instrument designated as a cash flow hedge;

.

Reserve for available-for-sale financial assets (5,500 thousand euros): a decrease of 2,234 thousand euros compared to December 31, 2009. This reserve includes unrealized losses regarding the investments in Fin.Priv (-983 thousand euros) and Assicurazioni Generali (-1,883 thousand euros), and the net positive fair value adjustment of other available-for-sale financial assets (8,366 thousand euros), net of the relative tax effects;

.

Reserve for other equity instruments: equal to 11,603 thousand euros. It comprises:

o

the value of the stock options assigned to executive directors in accordance with the Top Plan 2008 and the value of the share granting rights assigned to top management of Telecom Italia or subsidiaries in accordance with the Performance Share Granting Plan (4,213 thousand euros);

o

the value of the rights granted to subscribers of the Broad-based Employee Share Ownership Plan 2010-2014 (7,190 thousand euros);

o

the value of the rights granted to subscribers of the Long Term Incentive Plan 2010-2015 (199 thousand euros);

.

Merger surplus reserve (2,072,518 thousand euros): unchanged from December 31, 2009;

.

Unavailable reserve originating from the application of art. 7, paragraph 7 of Legislative Decree 38/2005 (578,234 thousand euros);

.

Miscellaneous reserves (408,028 thousand euros).

Retained earnings (accumulated losses), including profit for the year show a positive balance of 7,703,045 thousand euros at December 31, 2010, increasing 2,474,309 thousand euros compared to December 31, 2009. The change is mainly due to the profit for the year 2010 (3,512,581 thousand euros), which is partly offset by dividends approved by the shareholders meeting held on April 29, 2010 on approval of the 2009 separate financial statements (1,034,755 thousand euros).

The following statement provides additional disclosure on equity and is prepared pursuant to art. 2427, number 7-bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in prior years.

Statement according to art. 2427, 7-bis

Nature/description

Amount

Possibility of utilization

Amount

available

Summary of the amounts utilized during the last three years

for absorption of losses

for other reasons

(thousands of euros)

Total

Total

Footnotes

Share capital	**10,668,026**
	-
	-
Capital reserves:	
Paid-in capital	1,697,292

A, B, C

1,697,292

-

-

Legal reserve

1,952,851

B

-

-

-

Reserve L.D. 124/93 ex art. 13

391

A, B, C

391

-

-

Reserve D.P.R. 917/86 ex art. 74

5,750

A, B, C

5,750

-

-

Reserve Law 266/2005 ex art. 1, para. 469

Law 342/2000, ex art. 14	315,842	A, B, C	315,842	-	-
Reserve for capital grants	537,727	A, B, C	537,727		
Miscellaneous reserves	104,283	A, B, C	104,283	-	-
Reserve ex L.D. 38/2005 art. 7, para 7	578,234	B	-	-	-

Merger surplus reserve	2,010,152	A, B, C	2,010,152	-	-
Profit reserves:				
Legal reserve	181,922	B	-	-	-
Reserve for capital grants				

	64,532	A, B, C	64,532	-	-
Revaluation reserve ex Law 413/91	1,129	A, B, C	1,129	-	-
Miscellaneous reserves	323,034	A, B, C	323,034	-	-
Reserve for derivative hedging instruments and related underlyings	(640,523)	B	(640,523)	-	-

Reserve for available-for-sale financial assets	5,500	B	-	-	-
Reserve for other equity instruments	11,603	B	-	-	-
Merger surplus reserve	62,366	A, B, C	62,366	-	-
Retained earnings	4,190,464	A, B, C	4,190,464	-	-

Total	**8,672,439**
Treasury shares	(40,008)
	-
	-
Amount not distributable (1)	(3,736)
Remaining amount distributable	**8,628,695**

Key A = for share capital increase; B = for absorption of losses; C = for distribution to shareholders

(1) This represents the amount of the undistributable portion owing to the part of paid-in capital needed to integrate the legal reserve until it reaches 1/5 of share capital (2,976 thousand euros) and the gain on the disposal of a business segment, in 2008, to the subsidiary Matrix (760 thousand euros).

The amount of **distributable reserves** without any tax charges to be borne by the Company is equal to 7,703,324 thousand euros.

***

The table below shows the restrictions, pursuant to art. 109, paragraph 4, letter b) of TUIR, relating to off-book deductions effected for income tax purposes in past years:

(thousands of euros)	
Off-book deductions at 12/31/2009	**61,717**
Reversal for taxation during the year	(3,636)
Off-book deductions at December 31, 2010	**58,081**
Deferred taxes (IRES and IRAP)	(15,972)
Restriction on equity at December 31, 2010	**42,109**

This regime imposes a restriction on all equity reserves, without distinction, for an amount equal to the off-book deductions net of the relative deferred taxes provided. This restriction remains until such time as the excess tax deductions and consequent taxation are recovered in the books.

More specifically, compared to December 31 2009, the deductions decreased by 3,636 thousand euros as a result of taxation during the year.

Therefore, taking into account the residual deductions effected in prior years and not covered by the fiscal realignment carried out in accordance with Law 244 dated December 24, 2007, the total restriction on equity in the separate financial statements amounts to 42,109 thousand euros.

Future potential changes in share capital

The following table shows the future potential changes in share capital on the basis of the rights of equity compensation plans still outstanding at December 31, 2010:

	Number of maximum shares issuable	**Nominal value** (thousands of euros)	**Paid-in capital** (thousands of euros)	**Subscription price per share** (euros)
Additional capital increases not yet approved (ord. sh.)				

Broad-based Employee Share Ownership Plan 2010-2014 (bonus capital increase)

9,018,713

4,960

-

-

Long Term Incentive Plan 2010-2015

(reserved capital increase)

n.d.

(*)

5,000

(*)

n.d.

(*)

n.d.

(*)

Long Term Incentive Plan 2010-2015

(bonus capital increase)

n.d.

(**)

5,000

(**)

-

-

Shareholders resolution of April 8, 2009

1,600,000,000

880,000

n.d.

n.d.

Total additional capital increases not yet approved (ord. sh.)

894,960

(*) A number of ordinary shares can be issued subscribable for a total maximum equivalent amount (including paid-in capital) of 5,000,000 euros, with the subscription price determined by the board of directors.

(**) A number of ordinary shares can be issued for the number needed to allot a bonus share for every share subscribed, up to a maximum amount of 5,000,000 euros.

Further details on stock option plans are provided in the Note   Equity compensation plans .

With regard to the additional capital increases not yet approved, the following is noted.

The shareholders meeting held on April 29, 2010 granted the directors the right to increase share capital for five years from April 29, 2010 as follows:

.

to service the Broad-based Employee Share Ownership Plan 2010-2014 , as approved by the shareholders meeting held on April 29, 2010, (i) against payment, through the issue of a maximum of 31,000,000 new ordinary shares of par value 0.55 euros each, and thus for a par value not in excess of 17,050,000 euros, with normal dividend rights, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, to be offered for subscription to the employees who are beneficiaries under the Broad-based Employee Share Ownership Plan 2010-2014 , and subsequently (ii) for a maximum amount of 5,683,333.15 euros through distribution of a corresponding maximum amount of profits in accordance with art. 2349 of the Italian Civil Code, with the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, in the number necessary to allot a bonus share for every three shares subscribed to against payment as above by the employees who are beneficiaries of the Broad-based Employee Share Ownership Plan 2010-2014 , subject to meeting the conditions within the timeframe and according to the manner established therein;

.

to service the Long Term Incentive Plan 2010-2015 , as approved by the shareholders meeting held on April 29, 2010, (i) against payment, through the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, for a maximum amount of 5,000,000 euros, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, to be offered for subscription by the employees who are beneficiaries under the Long Term Incentive Plan 2010-2015 , and subsequently (ii) for a maximum amount of 5,000,000 euros through distribution of a corresponding maximum amount of profits in accordance with art. 2349 of the Italian Civil Code, with the issue of new ordinary shares for a par value of 0.55 euros each, with normal dividend rights, in the number necessary to allot a bonus share for every share subscribed to against payment as above by the employees who are beneficiaries of the Long Term Incentive Plan 2010-2015 subject to meeting the conditions within the timeframe and according to the manner established therein.

As regards the share capital increase against payment, the board of directors fixes the share issue price (including paid-in capital) in conformity with the provisions of the Broad-based Employee Share Ownership Plan 2010-2014 and the Long Term Incentive Plan 2010-2015 and also fixes the period for their subscription, establishing that, if the approved capital increase is not fully subscribed to within that period, the share capital shall be increased for an amount equal to the subscriptions received up to the end of that period.

In reference to the Broad-based Employee Share Ownership Plan 2010-2014 , on May 6, 2010, the board of directors, by the power granted to it by the special shareholders meeting held on April 29, 2010, passed a resolution to increase against payment, divisible, pursuant to art. 2443 of the Italian Civil Code and according to the provisions of art. 2441, paragraph 8 of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, share capital for a maximum par value of 17,050,000 euros, through the issue of a maximum of 31,000,000 new ordinary shares of par value 0.55 euros each, at an issue price equal to the average market prices of the last month preceding the offering discounted by 10%, to be reserved for subscription by beneficiaries of the Broad-based Employee Share Ownership Plan 2010-2014 , establishing that, where the share capital has not been fully subscribed to by the end of the offering period, in any case not later than September 30, 2010, the capital shall be increased for an amount equal to the subscriptions received by that date.

On June 16, 2010, the criteria for the calculation of the subscription price and the subscription period were defined.

The subscription price was defined as the arithmetic mean of the share trading prices of the Company s ordinary shares recorded between May 25, 2010 and June 25, 2010 on the Mercato Telematico Azionario (Electronic Stock Market) organized and operated by Borsa Italiana S.p.A.. It was calculated using as the divisor only the days which refer to the listed prices taken as the basis for the calculation, discounted by 10%, up to the second digit after the decimal point (hundredths of a euro).

The precise subscription price, equal to 0.84 euros per share, was communicated by means of a notice published on the Group intranet on the evening of June 25, 2010.

The subscription period for the discounted offer of ordinary shares went from June 28, to July 9, 2010 and, following this operation, 27,056,139 ordinary shares were issued on July 29, 2010, bringing the total number of Telecom Italia ordinary shares issued to 13,407,963,078. Accordingly, at that date, the maximum quantity of shares issuable with the relative bonus share capital increase went from 10,333,333 to 9,018,713 ordinary shares, for a par value equal to 4,960 thousand euros.

The shareholders meeting held on April 8, 2009 granted the directors the power (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,

(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 period 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 within that period set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to end of that period.

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.

As of the date of December 31, 2010, Telecom Italia S.p.A. holds 37,672,014 treasury shares, of which 25,000,000 were purchased to service the plan for allotting bonus Telecom Italia S.p.A. ordinary shares to resources 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, and of which 11,400,000 ordinary shares were purchased 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 same treasury share buyback program.

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On the basis of the motion put forward by the board of directors meeting held on February 24, 2011, the profit for the year 2010 of Telecom Italia S.p.A., equal to 3,512,581 thousand euros, shall be appropriated as dividends for 1,191,775 thousand euros, for distribution to the shareholders:

.

0.058 euro for each ordinary share,

.

0.069 euro for each savings share,

gross of withholdings as established by law; undistributed profit will be appropriated to retained earnings.

Note 16 Financial liabilities (current and non-current)

Financial liabilities are composed as follows:

(thousands of euros)	**12/31/2010**	**12/31/2009 Reclassified (*)**
Financial payables (medium/long-term)		
. Bonds	16,406,475	17,285,565
. Amounts due to banks	4,420,730	4,177,351
. Payables to other lenders	13,291	23,244
. Payables to subsidiaries	11,696,141	13,605,745
	32,536,637	**35,091,905**

Finance lease liabilities (medium/long-term)		
. Payables to subsidiaries	445	199
. Payables to associates	193,457	220,652
. Payables to others	1,242,188	1,324,235
	1,436,090	**1,545,086**
Other financial liabilities (medium/long-term)		
. Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,877,391	2,100,133

. Non-hedging derivatives	1,302,548	1,491,830
. Deferred income	1,023	3,063
	3,180,962	**3,595,026**
TOTAL NON-CURRENT FINANCIAL LIABILITIES (a)	**37,153,689**	**40,232,017**
Financial payables (short-term)		
. Bonds	3,066,840	1,404,022
. Convertible bonds	-	580,996
. Amounts due to banks	428,524	1,674,096
. Payables to other lenders		

	365,371	290,382
. Payables to subsidiaries	1,586,391	3,075,011
Payables to associates	2,108	-
. Other financial payables	175	181
	5,449,409	**7,024,688**
Finance lease liabilities (short-term)		
. Payables to subsidiaries	346	257
. Payables to associates	116,234	127,599
. Payables to other related parties	-	8,879

. Payables to others	95,675	98,781
	212,255	**235,516**
Other financial liabilities (short-term)		
. Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	121,240	144,022
. Non-hedging derivatives	272,734	408,327
. Deferred income	292	647
	394,266	**552,996**

TOTAL CURRENT FINANCIAL LIABILITIES (b)	**6,055,930**
	7,813,200
TOTAL FINANCIAL LIABILITIES (c)=(a+b)	**43,209,619**
	48,045,217

(*) After reclassification of a part of non-hedging derivatives, originally classified in current assets/liabilities, to non-current assets/liabilities. Further details are provided in the Note "Reclassifications".

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Bonds are composed as follows: