TELECOM ITALIA S P A
Form 6-K
August 09, 2010

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 AUGUST 2010

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 2010-2012 period;

- our ability to successfully achieve our debt reduction targets;

- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;

- the impact of the global recession in the principal markets in which we operate;

- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing and international mobile roaming;

- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;

- our ability to successfully implement our internet and broadband strategy 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

2009

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.

2

Annual Report 2009

Telecom Italia Group

3

Annual Report 2009

Telecom Italia Group

Letter to the Shareholders

Shareholders,

In view of the matters involving Telecom Italia Sparkle, we judged it appropriate to apply the full term allowed by law for the approval of the financial statements in order to complete the necessary investigations into the questions raised by the judicial enquiry. Further, as a result of this work, as a precautionary measure, we have set up a provision to cover any tax charges which may arise.

The magistrates enquiries relate to events which occurred in the period 2005 2007. The checks which we have carried out now permit us to rule out any carry over of these matters into subsequent years.

We will not tolerate that in any manner any responsibility of individual persons is born by, or causes damage to the company. On such responsibility being established, Telecom Italia will seek redress through the appropriate channels and will use all the means at its disposal to protect its interests.

The last months have been characterized by their extraordinary complexity due not solely to the matters described above; in 2009 we have been engaged on several fronts. We have contended with the most difficult economic environment since the war, which reduced the spending capacity of consumers and businesses forcing us to revise profoundly our positioning in the market. We have completed a radical reorganization of the sales operations of mobile network services in order to improve the efficiency of our selling processes.

The year 2009 was also the first year in which in financial terms we did not benefit from tax credits deriving from extraordinary operations occurred in past years. Indeed the effect on cash outflows was twofold since to the increased amount of the payment on account for 2009 were added the increased amounts of the final settlement for the preceding year. With regard to international operations we resisted vigorously the unjustified actions aimed at imposing on us a forced sale of the business in Argentina.

All these commitments however have not caused us to divert in any way from the chosen path and have not prevented us from achieving important results which are in line with the objectives previously set, in terms of profitability, financial discipline, rationalization and cost reduction and advancement of the non-core activities divestment process within the established timescale and with satisfactory returns.

Of particular significance, in the light of the difficult scenario Telecom Italia faced in 2009, was the performance of fixed network services and of the Brazilian subsidiary. So far as concerns mobile network services in the domestic market, we still have a long way to go, but we have started down the right road and the ambitious measures already taken, such as the re-definition of the sales channels and the repositioning of the product offering will yield fruit soon.

For us the most important achievement in 2009 has been the work on cost reduction which has compensated for the decline in sales revenues, maintaining EBITDA substantially unchanged.

Telecom Italia today is leaner, more flexible, more responsive and more solid than it was two years ago. The management team is dedicated and highly professional. Further, our Group is able to generate the financial resources needed for the completion of the Telecom Italia s turnaround while maintaining an adequate shareholder remuneration.

Telecom Italia however is not just stronger in competitive, technological, financial and market terms. Telecom Italia is a company which has succeeded in opening a dialog and an open, honest, serious and constructive relationship with the institutions and with the other stakeholders. The weight and importance of Telecom Italia nationally and internationally are attributable to the role which our Group has been able to play and will continue to play, in the economic and social development of the countries in which it operates.

In conclusion, today our Group is in a position to face the future and to improve further the results which it has begun to obtain from the intense process of transformation which has been undertaken. The difficulties we have faced and overcome together made us even stronger and enhanced our cohesion. Together we will be able to restore to this great company the future which it deserves.

Telecom Italia will return to growth and will continue to be the leading operator of electronic communications services which our country needs.

Key Operating and Financial Data -

Telecom Italia Group

2009 Highlights

The key operating and financial data reported by the Telecom Italia Group in 2009 point to a trend in line with the Group s targets of profit and of focus on cash flows announced for the current year. These results constitute an important premise for updating and developing the actions of the 2010 2012 Plan which are centered on expanding projects for operating efficiency and containing cash costs, improving financial management and completing the programs for relaunching the mobile business in the Domestic Consumer segment and also in Brazil.

Organic EBITDA and EBITDA margin

The emphasis on higher margin revenues and projects for efficiency and control over expenditures aimed at containing cash costs is confirmed by the trend in the organic EBITDA margin and the organic consolidated EBITDA margin in the fourth quarter of 2009 and in the full year 2009.

Specifically, the organic consolidated EBITDA margin reached 41.7% in 2009 (39.5% in 2008, +2.2 percentage points) while in terms of the absolute amount organic EBITDA is slightly lower compared to the prior year (11,327 million euros in the full year 2009, -52 million euros compared to 2008). In the fourth quarter of 2009, organic EBITDA is 2,713 million euros, -20 million euros against the same period of 2008. The organic EBITDA margin is 38.8% in the fourth quarter of 2009, gaining 3.2% over the same period of the prior year.

Such results again place the Telecom Italia Group among the top performers in the TLC sector.

Operating cash flow and financial discipline

The above indicated actions aimed at revenues and costs, combined with strict financial discipline, brought operating cash flow to 6.3 billion euros in 2009, 662 million euros higher than in the 2008. As a percentage of Revenues, cash flow represents 23.2% of Revenues, advancing 3.8% compared to 2008.

Profit before tax from continuing operations

The positive trend in operating management and effective financial management resulted in an increase in profit before tax of 445 million euros (+15.4%) compared to 2008.

The consolidated financial statements at December 31, 2009 take into account adjustments and accruals made as a result of the impact of the court order referring to the ongoing investigation in respect of, among others, the subsidiary Telecom Italia Sparkle, and subsequent specific independent legal and tax advisors appointed by the Group to verify the existence of any other irregularities concerning the years beginning 2005. The comparative data for the year 2008 and the principal financial position and income statement data for the years 2005, 2006 and 2007 have been adjusted accordingly.

The total provision accrued at the end of 2009 amounts to 507 million euros and is set aside to meet risks and charges of a tax and legal nature.

The trend of the key operating and financial indicators in 2009 can be summarized as follows:

Organic consolidated revenues: amount to 27,180 million euros. The organic change[(1)] is -5.6% compared to the prior year. In particular:

-

the organic reduction in **Domestic** Business Unit **Revenues** is 6.8%. Competition and the macroeconomic situation led a reduction in the revenues of the Top Clients Division by 3.4%, the Business Division by 9.5% and the Consumer Division by 9.8%.

-

Revenues in **Brazil** are predominantly stable compared to 2008 (organic change of -0.3%, -15 million euros). Activities to reorganize the business continued and actions set out in the commercial relaunch plan were implemented. VAS revenues, in particular, recorded good performance driven by the growth of the customer base which, in the fourth quarter of 2009, posted an increase of 1.5 million lines.

Organic consolidated **EBITDA**: again in 2009, for the third consecutive year, the Group attains the important result of a stable EBITDA which reached more than 11 billion euros. Above all, thanks also to the structural revision of the composition of revenues, which favored higher-margin services and efficiency and control actions put into place over all cost variables, the organic consolidated EBITDA margin grew 2.2 percentage points, arriving at 41.7% in 2009 (39.5% in 2008). In absolute terms, EBITDA is basically stable compared to the prior year. In the fourth quarter of 2009, organic EBITDA is 2,713 million euros, -20 million euros against 2008. The organic EBITDA margin is 38.8% in the fourth quarter of 2009; this is an increase of 3.2% over the prior year (35.6%).

Organic consolidated **EBIT**: amounts to 5,761 million euros in 2009. The organic increase is +0.5% compared to 2008. In the fourth quarter of 2009, organic EBIT totals 1,331 million euros, gaining 3.9% (+50 million euros) over 2008.

Organic consolidated **EBIT margin**: reaches 21.2% in 2009, improving 1.3 percentage points over 2008 (19.9%). In the fourth quarter of 2009, the organic EBIT margin is 19.1%, a growth of 2.4 percentage points compared to 16.7%.

Finance income/expenses and income taxes: the financial component, investment management and the equity valuation of associates record an overall improvement of 389 million euros.

Income taxes increased 444 million euros: excluding the benefit of 515 million euros in 2008 due to the tax realignment of accelerated depreciation taken in prior years, income taxes would have decreased 71 million euros.

Profit for the year attributable to owners of the Parent: is 1,581 million euros, decreasing 596 million euros compared to 2008. The reduction is mainly due to the effect of the impairment loss on goodwill attributed to the Broadband business in Germany and accruals to provisions and transaction costs related to sale for a total of 597 million euros made so as to reduce the carrying amount of HanseNet to its estimated sales value.

Profit for the year of the Parent Telecom Italia S.p.A.: is 1,399 million euros, decreasing 74 million euros compared to 2008.

Operating cash flow and Other cash flows: operating Cash Flow is 6,298 million euros, improving 662 million euros compared to 2008. This is the consequence of a stable operating margin and the effectiveness of measures aimed at controlling costs and monitoring and selecting capital expenditure projects. Capital expenditures, in particular, decreased 497 million euros compared to 2008, which had included 477 million euros for the acquisition of the 3G license in Brazil. Furthermore, in 2009, the Group paid 2,301 million euros in taxes (including 248 million euros on tax disputes accrued in prior years) for a significantly higher amount than in previous years.

Adjusted net financial debt: the volatility of interest rates and exchange rates, which were a distinguishing feature of the financial markets in the fourth quarter of 2008, had a sharp impact on the fair value of derivatives and related financial assets and liabilities. In order to present a more realistic analysis of net financial debt, beginning from the half-yearly report at June 30, 2009, a new performance measure was introduced denominated adjusted net financial debt which excludes purely accounting and non-monetary effects deriving from the fair value measurement of derivatives and the related financial assets and liabilities.

(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 nonorganic income/expenses.

At December 31, 2009, adjusted net financial debt amounts to 33,949 million euros, decreasing 577 million euros compared to December 31, 2008 (34,526 million euros) and 1,144 million euros compared to September 30, 2009. This decrease in the fourth quarter was generated by cash flows provided by operations which absorbed the incremental effects of the first nine months due to the payment of dividends and taxes.

Liquidity margin: amounts to 7.3 billion euros at December 31, 2009. During 2009, the situation of the European and United States financial markets made it possible to issue new bonds and obtain new loans at advantageous conditions. In addition, 6.5 billion euros of available irrevocable long-term credit lines (expiring in 2014) are available, not subject to events which limit its utilization. In the present environment of financial market uncertainty, the Telecom Italia Group keeps a high level of financial coverage while optimizing, at the same time, the average cost of debt.

Consolidated Operating and Financial Data

(millions of euros)	**2009**	**2008**	**2007**	**2006**	**2005**
Revenues	27,163	29,000			

	29,802
	29,785
	29,193
EBITDA [1]	
	11,115
	11,090
	11,295
	12,498
	12,468
EBIT[1]	
	5,493
	5,437
	5,738
	7,269
	7,548
Profit before tax from continuing operations	
	3,339
	2,894
	4,120
	5,366
	5,596
Profit from continuing operations	
	2,218
	2,217
	2,459

2,855

3,200

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

(622)

(39)

(99)

(159)

401

Profit for the year

1,596

2,178

2,360

2,696

3,601

Profit for the period attributable to owners of the Parent

1,581

2,177

2,353

2,707

3,127

Investments:

Industrial	
	4,543
	5,040
	5,031
	4,698
	4,916
Financial	
	6
	6
	637
	206
	14,934

Consolidated Financial Position Data (*) (**)

(millions of euros)	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Total assets	86,181	86,223	88,593	90,322	96,492
Total equity	27,120	26,328	26,494	26,702	

26,896

- attributable to owners of the Parent

25,952

25,598

25,431

25,622

25,573

- attributable to non-controlling interests

1,168

730

1,063

1,080

1,323

Total liabilities

59,061

59,895

62,099

63,620

69,596

Total equity and liabilities

86,181

86,223

88,593

90,322

	96,492
Share capital	
	10,585
	10,591
	10,605
	10,605
	10,599
Net financial debt carrying amount (1)	
	34,747
	34,039
	35,701
	37,301
	39,858
Adjusted net financial debt (1)	
	33,949
	34,526
	35,873
	37,200
	39,470
Adjusted net invested capital (2)	
	61,069
	60,854
	62,367
	63,902

66,366

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

55.6%

56.7%

57.5%

58.2%

59.5%

Headcount, number in the Group at year-end (3)

(number)

12/31/2009

12/31/2008

12/31/2007

12/31/2006

12/31/2005

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

71,384

75,320

79,238

80,373

83,187

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

2,205

2,505

4,191

2,836

3,344

Headcount, average number in the Group **(3)**

(equivalent number)

2009
2008
2007
2006
2005

Headcount (excluding headcount of Discontinued operations/Non-current assets held for sale)
69,964
73,508
75,735
77,374
78,258
Headcount of Discontinued operations/Non-current assets held for sale
2,168
3,277
3,893
2,898
6,089

8

Report on Operations 2009

Telecom Italia Group

Consolidated Profit Ratios	**2009**	**2008**	**2007**	**2006**	**2005**
EBITDA[1] / Revenues					

40.9%

38.2%

37.9%

42.0%

42.7%

EBIT[1] / Revenues (ROS)

20.2%

18.7%

19.3%

24.4%

25.9%

Adjusted net financial debt /EBITDA[1]

3.1

3.1

3.2

3.0

3.2

Operating Data (*)	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Fixed-line network connections in Italy at year-end (thousands)	18,525	20,031	22,124		

23,698

25,049

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

16,097

17,352

19,221

20,540

21,725

Mobile lines at year-end (thousands)

71,958

71,199

67,585

57,860

48,747

of which Mobile lines in Italy (thousands)

30,856

34,797

36,331

32,450

28,576

of which Mobile lines in Brazil (thousands)
41,102
36,402
31,254
25,410
20,171
Broadband accesses in Italy at year-end (thousands)
8,741
8,134
7,590
6,770
5,707
of which retail broadband accesses (thousands)
7,000
6,754
6,427
5,600
3,920

(*) The comparative figures for the periods presented have been restated for the correction of errors as defined by IAS 8 arising as a result of the Telecom Italia Sparkle case and to reflect the retroactive adoption of IFRIC 13.

(**) The comparative figures for the periods presented, in order to ensure compatibility, have been restated in order to consider HanseNet Telekommunikation GmbH (Assets held for sale) and Liberty Surf group (sold at the end of

August 2008) in Discontinued operations/Non-current assets held for sale.

(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.

The operating and financial results of the Telecom Italia Group for the year 2009 and the comparative figures for the preceding years have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS).

Moreover:

·

as described in detail in the Note Restatement for errors and changes in accounting policies in the consolidated financial statements of the Telecom Italia Group at December 31, 2009, consequent to the errors as defined by IAS 8 arising from the investigation involving Telecom Italia Sparkle, the Telecom Italia Group has restated the prior years income statement and financial position figures;

·

following the retrospective application of IFRIC 13 (Customer Loyalty Programs), the comparative figures for the periods presented have been restated. Additional details are provided in the Note Accounting Policies and Note Restatement for errors and changes in accounting policies in the consolidated financial statements of the Telecom Italia Group at December 31, 2009;

·

with the application of IFRS 8, the term operating segment is considered synonymous with the term business unit used in this Annual Report.

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, particularly the part entitled Business Outlook for the Year 2010 contains forward-looking statements. The Report is based on the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, to be considered also in relation to the uncertainties connected with the financial market crisis, the majority of which are beyond the scope of the Group s control.

Report on Operations 2009

Telecom Italia Group

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

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

.

the investment in HanseNet Telekommunikation GmbH (operating in the broadband business in Germany) was classified in Discontinued Operations (Discontinued operations/Non-current assets held for sale); the sale was finalized on February 16, 2010.

In accordance with IFRS 5 (Non-current assets held for sale and discontinued operations), the results of operations of this company for the year 2009 and for the corresponding periods presented for comparison purposes, are shown in a specific line in the separate consolidated income statement Profit (loss) from Discontinued operations/Non-current assets held for sale while the balance sheet figures at December 31, 2009 are presented in two separate lines of the consolidated statement of financial position;

.

on December 30, 2009, Tim Participações purchased a 100% investment in the Brazilian fixed-line operator Intelig Telecomunicações Ltda which has been consolidated as of the same date by the Telecom Italia Group in the Brazil Business Unit;

.

beginning May 1, 2009, the company Telecom Media News S.p.A. has been excluded from the scope of consolidation following the sale of a 60% stake by Telecom Italia Media S.p.A..

During 2008, the following principal changes had taken place:

.

the exclusion of Entel Bolivia starting from the second quarter of 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the company. The investment is now carried in Current assets;

.

the exclusion of the Pay-per-View business segment as from December 1, 2008 after its disposal by Telecom Italia Media S.p.A..

Corporate Boards at December 31, 2009

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.

On February 27, 2009, following the resignation of Gianni Mion, the board of directors co-opted in his place Stefano Cao who was subsequently appointed director by the shareholders meeting held on April 8, 2009 up to the expiry of the term of office of the board of directors (the approval of the 2010 financial statements). On December 22, 2009, Stefano Cao resigned from the post of director.

At December 31, 2009, 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)

Berardino Libonati

Julio Linares López

Gaetano Micciché

Aldo Minucci

Renato Pagliaro

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), Berardino Libonati and Luigi Zingales.

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 new 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

(*) On May 7, 2009, the board of directors appointed Stefano Cao a member of the Executive Committee to replace Gianni Mion who resigned. On December 22, 2009, Stefano Cao resigned as director and member of the Executive Committee.

11

Report on Operations 2009

Telecom Italia Group

Independent Auditors

The independent auditors are Reconta Ernst & Young S.p.A. up to the audit of the 2009 financial statements.

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, 2009

Telecom Italia Group

Note should be taken that:

.

- beginning January 1, 2010, the **Disposals** function has been abolished.

.

- beginning February 10, 2010, the **Public Affairs** function and the position of **Executive Assistant** to the CEO have been abolished. On the same date, the following functions have been set up and report directly to the Chairman: **Institutional Relations** entrusted to Franco Rosario Brescia and **Territorial Relations and Institutional Marketing** headed by Paolo Annunziato.

Information for Investors

Telecom Italia S.p.A. share capital at December 31, 2009

Share capital	euro 10,673,865,180.00
Number of ordinary shares (par value 0.55 euros each)	13,380,906,939
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 treasury shares held by the Group to total share capital	0.84%
Market capitalization (based on December 2009 average prices)	

19,049 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2009, supplemented by communications received and other available sources of information (ordinary shares)

In reference to the Shareholders Agreement among Telco shareholders, it should be noted that - in accordance with the agreement - on October 28, 2009, Sintonia requested the non-proportional withdrawal of Telco.

On the same date, the other shareholders signed a Modifying Agreement and the renewal of the Shareholders Agreement under which it was agreed (i) to make, effective April 28, 2010, some modifications (both subjective and objective) to the Shareholders Agreement (which remains in force until the expiration date of April 28, 2010) and (ii) to renew the Shareholders Agreement, as modified, for a further three years and therefore effective from April 28, 2010 to April 27, 2013. The shareholders have the right to ask for the withdrawal of Telco via communication to be sent between October 1, and October 28, 2012; each shareholder may also withdraw from the Shareholders Agreement to be communicated in the period between April 1, and April 28, 2011. The shareholders also agreed that for the purpose of Sintonia s withdrawal they could take into consideration, in accord with Sintonia, technical forms other than withdrawal, with the understanding that the common objective is to complete the exit in the shortest technical time.

14

Report on Operations 2009

Telecom Italia Group

On December 22, 2009, Sintonia therefore purchased from Telco 275,115,716 Telecom Italia ordinary shares, equal to 2.06% of the relative ordinary share capital and Telco purchased from Sintonia the entire investment held by Sintonia in Telco (equal to 8.39% of the relative share capital), later cancelling them.

On January 11, 2010, last of all, the shareholders signed a Modifying Agreement to the Shareholders Agreement in order to (i) confirm their financial support to Telco, (ii) agree on the way in which the shareholders can provide such financial support in the event it becomes necessary under the loan contract guaranteed by a Telecom Italia ordinary share pledge arrangement signed on the same date between Telco and a pool of financial institutions and (iii) regulate, among the shareholders, the manner of exercising the option rights by virtue of which the shareholders acquired, again on the same date, the right to purchase Telecom Italia ordinary shares which would become available to the financial institutions following any enforcement of the pledge on the part of the latter.

Major holdings in share capital

At December 31, 2009, 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	22.45%
Findim Group S.A.	Direct	4.99%

Sintonia S.A. (*)	Direct	2.06%

(*) On January 5, 2010, the shares held by Sintonia S.A. decreased to below 2%.

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

.

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

.

Blackrock Inc.: on December 1, 2009, for a quantity of ordinary shares equal to 2.82% of total Telecom Italia S.p.A. ordinary shares;

.

Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares equal to 2.07% of total Telecom Italia S.p.A. ordinary shares.

Common representatives

Carlo Pasteris is the common representative of the savings shareholders (for the years 2007 2009).

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. 750,000,000 euros, 4.50% notes due 2011 (with a mandate for the three-year period 2009-2011 and, therefore, up to maturity);

.

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).

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

Relative performance by Telecom Italia S.p.A.

1/1/2009   12/31/2009 vs. FTSE Italy All-Shares Index and Dow Jones Stoxx TLC Index

(*) Stock market prices. Source: Reuters.

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

1/1/2009   12/31/2009 vs. FTSE Italy All-Shares Index and Dow Jones Stoxx MEDIA Index

(*) Stock market prices. Source: Reuters.

Relative performance by Tim Participações S.A.

1/1/2009 12/31/2009 vs. BOVESPA Index and ITEL Index (in Brazilian reais)

(*)Stock market prices. Source: Reuters.

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

Rating at December 31, 2009

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

Standard & Poor s, on July 29, 2009, confirmed its BBB rating of Telecom Italia with a stable outlook for the Group.

Moody s, on June 17, 2009, confirmed its Baa2 rating of Telecom Italia with a stable outlook for the Group.

Fitch Ratings, on June 12, 2009, confirmed its BBB rating of Telecom Italia with a stable outlook for the Group.

Telecom Italia Group

FINANCIAL RATIOS - TELECOM ITALIA S.P.A. AND THE TELECOM ITALIA GROUP

Telecom Italia S.p.A.

(euros)	**2009**	**2008**	**2007**
Share prices (December average)			
- Ordinary	1.08	1.09	2.18
- Savings	0.76		

0.73

1.68

Dividends per share (1)

- Ordinary

0.050

0.050

0.080

- Savings

0.061

0.061

0.091

Pay Out Ratio(1) (*)

74%

70%

86%

Market to Book Value (**)

0.83

0.82

1.67

Dividend Yield (based on December average) (1) (***)

- Ordinary	4.63%	4.59%	3.67%
- Savings	8.03%	8.36%	5.42%

Telecom Italia Group

(euros)	**2009**	**2008**	**2007**

Basic earnings per share ordinary shares
0.08
0.11
0.12
Basic earnings per share savings shares
0.09
0.12
0.13

(1)

For the year 2009, the ratio was calculated on the basis of the resolution for the approval of the profit for the year passed by the shareholders meeting held on April 29, 2010.

(*) 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

2009 Consolidated Operating Performance

The main profit indicators in 2009 compared to 2008 are the following:

Change (a-b)

(millions of euros)

2009

2008

amount

%

%

organic

(a)

(b)

REVENUES

27,163

29,000

(1,837)

(6.3)

(5.6)

EBITDA

11,115

11,090

25

0.2

(0.5)

EBITDA MARGIN

40.9%

38.2%

2.7 pp

ORGANIC EBITDA MARGIN

41.7%

39.5%

2.2 pp

EBIT

5,493

5,437

56

1

0.5

EBIT MARGIN

20.2%

18.7%

1.5 pp

ORGANIC EBIT MARGIN

21.2%

19.9%

1.3 pp

PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

3,339

2,894

445

15.4

PROFIT FROM CONTINUING OPERATIONS

2,218

2,217

1

0.0

PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE	(622)	(39)	(583)	°
PROFIT FOR THE YEAR	**1,596**	**2,178**	(582)	(26.7)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**1,581**	**2,177**	(596)	(27.4)

The following chart summarizes the main line items which had an impact on the profit attributable to owners of the Parent in 2009:

Revenues

Revenues amount to 27,163 million euros in 2009, decreasing 6.3% compared to 29,000 million euros in 2008 (-1,837 million euros). In terms of the organic change, the reduction in consolidated revenues is 5.6% (- 1,625 million euros).

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

- excluding the effect of the change in the scope of consolidation (-58 million euros, mainly in reference to the exclusion of Entel Bolivia from the second quarter of 2008 and the sale of the Pay-per-View business by Telecom Italia Media S.p.A. in December 2008);

- excluding the effect of exchange differences (-161 million euros, being the sum of the negative exchange differences of the Brazil Business Unit [(2)], equal to -171 million euros, and the exchange differences of the other Business Units, equal to +10 million euros);

- excluding non-organic other revenues of 17 million euros in 2009 (24 million euros in 2008).

The breakdown of revenues by operating segment is the following:

2009

2008

Change

(millions of euros)

% of total

% of total

amount

%

%

organic

Domestic	21,662	*79.7*	23,227	*80.1*	(1,565)	(6.7)	(6.8)
Brazil	5,022	*18.5*	5,208	*18.0*			

(186)

(3.6)

(0.3)

Media, Olivetti and Other Operations

738

2.7

857

3.0

(119)

(13.9)

Adjustments and Eliminations

(259)

(0.9)

(292)

(1.1)

33

Total consolidated revenues

27,163

100.0

29,000
100.0
(1,837)
(6.3)
(5.6)

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

(1)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 2.76933 in 2009 and 2.67864 in 2008. The effect of the change in the exchange rates is calculated applying, to the year under comparison, the foreign currency translation rates used for the current year.

The Domestic Business Unit (divided into Core Domestic and International Wholesale) has suffered overall from the negative market scenario in 2009, although to a differing degree between fixed telephony, where the reduction in revenues is continually decreasing, and mobile telephony, where the trend in revenues is down compared to the previous quarters.

In particular, the change in Domestic Core revenues (telecommunications activities regarding the domestic market, in its new representation by sales business segment reported below) reflects the following changes during 2009:

·

contraction in Consumer segment revenues (-1,196 million euros, -9.8%), associated with the fundamental transformation of mobile commercial policy (described in greater detail under the Domestic Business Unit) and largely attributable to low-margin business areas (in particular: mobile segment product revenues -407 million euros and mobile segment content revenues -61 million euros) while growth was reported for Broadband services in both the fixed area (+114 million euros, +13%) and mobile area (+42 million euros, +12%);

·

fall in Business segment revenues (-394 million euros, -9.6%), which, to a greater extent than the other markets, was hurt by the decline in consumption owing to the aforementioned economic picture and the contrasting impact of competition in the fixed telephony area, particularly regarding Telecom Italia s customer win-back procedure. Nevertheless, positive trends have been consolidated in these circumstances such as the stability of fixed internet revenues and the steady growth of mobile browsing revenues;

·

more moderate reduction in the Top segment (-3.4%), driven by strong growth in ICT solutions and packages (+15.3%), a stable mobile area and a fall in fixed-line business;

·

significant increase in the National Wholesale segment (+258 million euros, +14.8%) generated by the growth of the customer base of alternative operators.

As for the Brazil Business Unit, organic revenues are substantially unchanged compared to the prior year (-0.3%). The good trend in VAS and product revenues, buoyed by the expansion of the customer base (+4.7 million lines compared to the end of 2008) was countered by the fall in sales of handsets and products.

For an in-depth analysis of revenue performance by individual Business Unit, reference should be made to the section The Business Units of the Telecom Italia Group .

EBITDA

EBITDA is 11,115 million euros, increasing 25 million euros (+0.2%) compared to 2008. The EBITDA margin went from 38.2% in 2008 to 40.9% in 2009. At the organic level, EBITDA decreased 52 million euros (-0.5%) while the EBITDA margin increased 2.2 percentage points (41.7% in 2009 compared to 39.5% in the prior year).

Details of EBITDA and the EBITDA margin by operating segment are as follows:

2009

2008

Change

(millions of euros)

% of total

% of total

amount

%

%

organic

Domestic

9,895

89.0

9,959

89.8

(64)

(0.6)

(2.1)

EBITDA margin

45.7

42.9

2.8 pp

2.3 pp

Brazil

1,255

11.4

1,217

11.0

38

3.1

9.6

EBITDA margin

25.0

23.4

1.6 pp

2.3 pp

Media, Olivetti and Other Operations

(29)

(0.3)

(70)

(0.6)

41

58.6

Adjustments and Eliminations

(6)

(0.1)

(16)

	(0.2)
	10
Total consolidated EBITDA	
	11,115
	100.0
	11,090
	100.0
	25
	0.2
	(0.5)
EBITDA margin	
	40.9
	38.2
	+2.7 pp
	+2.2 pp

The following chart summarizes the changes in EBITDA:

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

(millions of euros)	2009	2008	Change

Disputes and settlements	154	34	120
Costs for services of the Brazil Business Unit associated with the resolution of a dispute	22	-	22
Other	36	3	33
Expenses for mobility under Law 223/91	-	292	(292)
Total non-organic (revenues and income) / costs and expenses			

212

329

(117)

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 11,480 million euros, decreasing 1,640 million euros (-12.5%) compared to 2008 (13,120 million euros) and connected in part with the exchange rate effect, particularly that of the Brazil Business Unit (-99 million euros). In any case, the reductions are across all areas of expenses, particularly purchases of goods by the Domestic and Brazil Business Units and the portion of revenues to be paid to other operators.

In detail:

(millions of euros)	**2009**	**2008**	**Change**
Purchases of goods	1,852	2,707	(855)

Portion of revenues to paid to other operators and interconnection costs	4,282	4,927	(645)
Commercial and advertising costs	2,012	1,971	41
Power, maintenance and outsourced services	1,254	1,280	(26)
Rent and leases	572	572	-
Other service expenses	1,508	1,663	(155)

Total acquisition of goods and services
11,480
13,120
(1,640)
EBITDA margin
42.3
45.2
(2.9) pp

Employee benefits expenses

Details are as follows:

(millions of euros)	2009	2008	Change
Employee benefits expenses Italian companies:			
Ordinary expenses of employees	3,467	3,518	(51)
Expenses for mobility under Law 223/91			

	-	292	(292)
Total employee benefits expenses - Italy	**3,467**	**3,810**	**(343)**
Total employee benefits expenses - Foreign	**267**	**304**	**(37)**
Total employee benefits expenses	**3,734**	**4,114**	**(380)**
% of Revenues	*13.7*	*14.2*	*(0.5) pp*

In the Italian component of ordinary employee benefits expenses, the decrease of 51 million euros is the result of the reduction in the average salaried number of the workforce (-2,821 compared to 2008, at the same scope of consolidation) and is mainly offset by the effect of the increase in minimum salaries established by the TLC collective national labor contract since June 2008 and the impact of expenses for the renewal of the collective national labor contract on October 23, 2009.

In 2008, employee benefits expenses had included expenses for 292 million euros for the start of mobility procedures under Law 223/91 by the Parent Telecom Italia, Telecom Italia Sparkle, Olivetti and Olivetti I-Jet.

In the foreign component of employee benefits expenses, the decrease of 37 million euros is largely due to the reduction in the average salaried number of the workforce (-352 compared to 2008, net of changes in the scope of consolidation), the exchange rate effect of the Brazil Business Unit (-8 million euros) and also the exclusion from the scope of consolidation of the Entel Bolivia group (-4 million euros).

The average salaried number of the workforce is the following:

(equivalent number)	**2009**	**2008**	**Change**
Average salaried workforce Italy	60,324	63,145	(2,821)
Average salaried workforce			

Foreign [1]	9,640	10,363	(723)
Total average salaried workforce [2]	**69,964**	**73,508**	**(3,544)**
Non-current assets held for sale Foreign [3]	2,168	3,277	(1,109)
Total average salaried workforce including Non-current assets held for sale	**72,132**	**76,785**	**(4,653)**

(1) The change compared to 2008 includes a reduction due to the exclusion of an average of 371 people, relating to the Entel Bolivia group.

(2) The total includes people with temp work contracts: 316 average in 2009 (of whom: 279 average, Italy, and 37 average, foreign); 1 ,073 average in 2008 (of whom: 1,013 average, Italy, and 60 average, foreign).

(3) In 2009, it includes the average salaried workforce of HanseNet (2,168); in 2008 it comprised the average salaried workforce of HanseNet (2,520) and Liberty Surf group, sold at the end of August 2008 (757).

The headcount at December 31, 2009 is the following:

(number)	**12/31/2009**	**12/31/2008**	**Change**
Headcount Italy	60,872	64,242	(3,370)
Headcount Foreign	10,512	11,078	(566)
Total (1)	**71,384**	**75,320**	**(3,936)**

Non-current assets held for sale Foreign	2,205	2,505	(300)
Total - including Non-current assets held for sale	**73,589**	**77,825**	**(4,236)**

(1) Includes headcount of employees with temp work contracts: 56 at 12/31/2009 (of whom: 43, Italy, and 13, foreign) and 782 at 12/31/2008 (of whom: 721, Italy, and 61, foreign).

The foreign headcount at December 31, 2009 includes 580 people as a result of the entry of Intelig Telecomunicações Ltda in the scope of consolidation of the Brazil Business Unit.

Other income

Details are as follows:

(millions of euros)	2009	2008	Change
Late payment fees charged for telephone services	71	86	(15)
Recovery of costs for employees, purchases and services rendered	46	51	(5)
Capital and operating			

grants	49	42	7
Damage compensation, penalties and sundry recoveries	30	64	(34)
Sundry income	86	93	(7)
Total	**282**	**336**	**(54)**

Other operating expenses

Details are as follows:

(millions of euros)

	2009	**2008**

	Change
Writedowns and expenses in connection with credit management	
565	
687	
(122)	
Accruals to provisions	
168	
74	
94	
Telecommunications operating fee	
318	
315	
3	
Taxes on revenues of Brazilian companies	
271	
282	
(11)	
Indirect duties and taxes	

	128	139	(11)
Penalties, settlement compensation and administrative sanctions	73	63	10
Association dues and fees, donations, scholarships and traineeships	26	26	-
Sundry expenses	67	45	22
Total	**1,616**	**1,631**	**(15)**

The change compared to 2008 includes the exchange rate effect of the Brazil Business Unit (-29 million euros).

Specifically, writedowns and expenses in connection with credit management include 404 million euros referring to the Domestic Business Unit (402 million euros in 2008) and 153 million euros to the Brazil Business Unit (280 million euros in 2008, which recorded higher credit writedowns for the Televendita sales channel).

The accruals to provisions recorded mainly for pending disputes include 136 million euros referring to the Domestic Business Unit (31 million euros in 2008) and 25 million euros to the Brazil Business Unit (36 million euros in 2008).

Depreciation and amortization

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
Amortization of intangible assets with an finite useful life	2,251	2,324	(73)
Depreciation of property, plant and equipment owned and leased	3,300	3,352	

	(52)
Total	
	5,551
	5,676
	(125)

The reduction in amortization and depreciation charges is mainly in reference to the Domestic Business Unit (-116 million euros) and the remaining balance relates to the net effect between the change in the Brazilian real/euro exchange rate (-34 million euros) and higher amortization and depreciation charges by the Brazil Business Unit.

Net losses on disposals of non-current assets

Net losses on disposals of non-current assets total 59 million euros and principally include:

.

the negative impact of a total of 39 million euros in connection with the final disposal of the platform for credit management of the fixed consumer clientele segment of the Domestic Business Unit. In the first half of 2009, the platform had been written down by 48 million euros, now reduced to 39 million euros following a more exact analysis of the assets effectively retired;

.

the negative impact of a total of 11 million euros connected with the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A..

In 2008, this line item had included net gains of 9 million euros due to the sale of the Pay-per-View business by Telecom Italia Media and net other gains mainly referring to the sale of buildings.

Impairment reversals (losses) on non-current assets

The impairment losses on non-current assets amount to 12 million euros, unchanged compared to the prior year. In 2009, of that amount, 6 million euros refers to the impairment loss resulting from the impairment test on the goodwill attributed, within Other operations, to the consolidated company BBNed and the remaining amount refers to the impairment loss on property, plant and equipment recognized principally by the Domestic Business Unit.

EBIT

EBIT is 5,493 million euros, increasing 56 million euros compared to 2008 (+1.0%). The EBIT margin went from 18.7% in 2008 to 20.2% in 2009. The organic change in EBIT is a positive 29 million euros (+0.5%); at the organic level, the EBIT margin is 21.2% in 2009 (19.9% for the prior year).

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)
	2009

		2008	Change
Non-organic (income) expenses already described under EBITDA	212	329	(117)
Losses (Gains) on disposals of buildings, investments and intangible assets	50	(34)	84
Impairment loss BBNed	6	-	6

Other expenses	-	(1)	1
Total Non-organic (revenues and income) / costs and expenses	**268**	**294**	**(26)**

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

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
ETECSA	54	53	1
Other	13	11	2
Total	**67**	**64**	

3

Other income (expenses) from investments

Other income (expenses) from investments in 2009 amount to a negative 51 million euros and include the writedown of 39 million euros on the 19.37% investment in the Italtel Group. The amount of the investment, recorded at cost, was written off on the basis of a valuation backed by a specific report on its estimated value, conducted by an independent appraiser. The line item also includes gains, net of relative transaction expenses of 3 million euros, on the disposals, in early 2009, of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark, which had already been classified in Non-current assets held for sale at December 31, 2008.

Finance income (expenses)

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
Fair value measurement of call options on 50% of Sofora Telecomunicaciones share capital	60	(190)	250

Income (expenses) on bond buybacks	-	62	(62)
Early closing of derivative instruments	22	19	3
Writedown of receivables from Lehman Brothers	-	(58)	58
Accrual to provisions for interest (Telecom Italia Sparkle case)	(10)	(10)	-
Net finance expenses, fair value adjustments of derivatives and underlyings and other items	(2,242)	(2,434)	

	192
Total	**(2,170)**
	(2,611)
	441

The change in finance income (expenses) was impacted by the following:

.

the overall reduction in interest rates and lower debt exposure and an improvement, compared to the prior year, in the impact of fair value adjustments on positions that qualified for hedge accounting;

.

the improvement in the fair value measurement of the call options on Sofora share capital;

.

the absence of the effect, compared to 2008, of the writedown of receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc. arising on transactions in derivative instruments hedging financial risks on existing financial liabilities;

.

lower income on bond buybacks. Such bond repurchase transactions, although having no impact in terms of finance income (expenses) in 2009 (income of 62 million euros in 2008), will give rise to lower finance expenses prospectively and constitute an efficient alternative investment of liquidity.

Moreover, net finance expenses in 2009 and 2008 include an accrual of 10 million euros to the provision for risks and charges referring to the Telecom Italia Sparkle case.

Income tax expense

Income tax expense is 1,121 million euros, increasing 444 million euros compared to 2008.

Specifically, it should be noted that the year 2008 had benefited from the positive effect of 515 million euros due to the tax realignment of off-book deductions carried out by some Group companies pursuant to Law 244 dated December 24, 2007 and the recognition of 60 million euros of deferred tax assets which became recoverable by some Group companies.

Net of this effect, income taxes post a reduction of 131 million euros in 2009 compared to the prior year described as follows:

.

lower taxes of the Parent in 2009 for 143 million euros due mainly to the filing of an application for the reimbursement of prior years Ires taxes corresponding to 10% of deductible Irap taxes, pursuant to Legislative Decree 185 dated November 29, 2008, art. 6, as well as lower taxes of the prior year;

.

higher 2009 income taxes (12 million euros) due mainly to a higher tax base by the Parent.

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

In 2009, this line item is a negative 622 million euros and includes:

.

the writedown of the goodwill allocated to Broadband activities in Germany, accruals to provisions and other expenses relating to the disposal, on February 16, 2010, of the entire investment held in HanseNet Telekommunikation GmbH (-597 million euros);

.

the negative contribution on consolidation of HanseNet for 23 million euros including the impacts of the amortization of the customer relationship and the audience agreement which resulted on the acquisition of the AOL internet business in Germany;

.

additional expenses connected with sales transactions in previous years (-2 million euros).

In 2008, this line item was a negative 39 million euros and had included:

.

the net impact of Liberty Surf Group S.A.S., being the balance between the gain on the disposal and the company s negative contribution to the consolidated result (-28 million euros);

.

HanseNet s negative contribution on consolidation, including an impairment loss of 21 million euros and the net contribution of the company to the consolidated result (for a total of -10 million euros);

.

additional expenses connected with sales transactions in previous years (-1 million euros).

Additional details are provided in the section Discontinued operations / Non-current assets held for sale .

Profit for the year

The profit for the year can be detailed as follows:

(millions of euros)	2009	2008
Profit for the year	**1,596**	**2,178**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing		

operations	2,203	2,216
Profit (loss) from Discontinued operations /Non-current assets held for sale	(622)	(39)
Profit (loss) attributable to owners of the Parent	**1,581**	**2,177**
Non-controlling interests:		
Profit (loss) from continuing operations	15	1
Profit (loss) from Discontinued operations /Non-current assets held for sale	-	-

Profit (loss) attributable to Non-controlling interests
15
1

27

Report on Operations 2009

Telecom Italia Group

Consolidated financial position performance

Financial position structure

(millions of euros)

12/31/2009

12/31/2008

Change

12/31/2008

Restated (1)

Restated

(a)

(b)

(a-b)

ASSETS

Non-current assets	
	68,498
	69,567
	(1,069)
	70,957
Goodwill	
	43,627
	43,230
	397
	43,891
Intangible assets with a finite useful life	
	6,282
	6,154
	128
	6,492
Tangible assets	
	14,902
	15,116
	(214)
	15,662
Other non-current assets	
	3,687

5,067

(1,380)

4,912

Current assets

16,450

14,904

1,546

14,684

Inventories, Trade and miscellaneous receivables and other current assets

7,870

8,383

(513)

8,480

Current income tax receivables

79

73

6

73

Investments

39

39

39

Securities other than investments, Financial receivables and other non-current financial assets, Cash and cash equivalents	
	8,462
	6,409
	2,053
	6,092
Discontinued assets/Non-current assets held for sale	
	1,233
	1,752
	(519)
	9
of a financial nature	
	81
	20
	61
	-
of a non-financial nature	
	1,152
	1,732
	(580)
	9
	86,181

86,223

(42)

85,650

EQUITY AND LIABILITIES

Equity

27,120

26,328

792

26,328

Non-current liabilities

39,806

40,303

(497)

40,356

Current liabilities

18,288

18,697

(409)

18,966

Liabilities directly associated with Discontinued operations/Non-current

assets held for sale	967	895	72	-
of a financial nature	*659*	*546*	*113*	-
of a non-financial nature	*308*	*349*	*(41)*	-
	86,181	**86,223**	**(42)**	**85,650**

(1) For purposes of comparison, the figures at December 31, 2008 have been restated in order to consider HanseNet Telekommunikation GmbH in Discontinued operations/Non-current assets held for sale.

Non-current assets

•

Goodwill: increased 397 million euros due to the recognition of goodwill for 96 million euros on the acquisition of the investment in Intelig Telecomunicações Ltda by the Brazil Business Unit and to the fluctuation in the exchange rates of the Brazilian companies (+307 million euros), and also to the impairment loss, recorded on the basis of the results of the impairment test, of 6 million euros on the goodwill attributed, within Other operations, to the consolidated company BBNed.

.

Intangible assets with a finite useful life: increased 128 million euros as a result of the following:

additions (+2,017 million euros);

amortization charge for the year (-2,251 million euros);

disposals, exchange differences, change in the scope of consolidation and other movements (for a net balance of +362 million euros).

•

Tangible assets: decreased 214 million euros from 15,116 million euros at the end of 2008 to 14,902 million euros at December 31, 2009, as a result of:

additions (+2,526 million euros);

depreciation charge for the year (-3,300 million euros);

disposals, exchange differences, change in the scope of consolidation and other movements (for a net balance of +560 million euros).

Discontinued assets/Non-current assets held for sale

Discontinued assets/Non-current assets held for sale at December 31, 2009 refer to HanseNet Telekommunikation GmbH and include:

assets of a financial nature for 81 million euros;

goodwill equal to 103 million euros, already net of the impairment loss of 558 million euros recognized during 2009;

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

At December 31, 2008, Discontinued assets/Non-current assets held for sale had referred to HanseNet and also, for 9 million euros, to the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark, which were sold in March 2009.

Consolidated equity

Consolidated equity amounts to 27,120 million euros (26,328 million euros at December 31, 2008), of which 25,952 million euros is attributable to owners of the Parent (25,598 million euros at December 31, 2008) and 1,168 million euros is attributable to Non-controlling interests (730 million euros at December 31, 2008).

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

(millions of euros)	**2009**	**2008**
At the beginning of the year (historical data)	**26,856**	**26,985**
Restatement for errors (*))	(497)	(487)
Change in accounting principles (**)	(31)	(4)
At the beginning of the year (restated)	**26,328**	

		26,494
Profit for the year	1,572	(**) 1,625
Dividends declared by:	(1,053)	(1,668)
- Telecom Italia S.p.A.	*(1,029)*	*(1,609)*
- Other Group companies	*(24)*	*(59)*
Bond conversions, equity instruments granted and purchase of treasury shares	(9)	(26)
Change in scope of consolidation and other changes	282	(97)
At the end of the year	**27,120**	

26,328

(*) Includes the impact of the correction of errors as defined by IAS 8 recognized in relation to the Telecom Italia Sparkle case, as fully described in the Note Restatement for errors and changes in accounting policies to the consolidated financial statements of the Telecom Italia Group at December 31, 2009.

(**) Includes the impact of the retrospective application of IFRIC 13 (*Customer Loyalty Programmes)*.

Net financial debt and financial flows

Net debt is composed as follows:

Net financial debt

(millions of euros)

12/31/2009

12/31/2008

Change

12/31/2008

Restated (1)

Restated

(a)

(b)

(a-b)

NON-CURRENT FINANCIAL LIABILITIES				
Bonds	26,369	25,680	689	25,680
Amounts due to banks, other financial payables and liabilities	8,818	9,134	(316)	9,134
Finance lease liabilities	1,565	1,694	(129)	1,713
	36,752	**36,508**	**244**	

36,527

CURRENT FINANCIAL LIABILITIES *

Bonds

3,667

4,497

(830)

4,497

Amounts due to banks, other financial payables and liabilities

3,069

1,496

1,573

1,496

Finance lease liabilities

250

266

(16)

274

6,986

6,259

727

6,267

Financial liabilities relating to Discontinued operations/Non-current assets held for sale

659

546

113

-

GROSS FINANCIAL DEBT

44,397

43,313

1,084

42,794

NON-CURRENT FINANCIAL ASSETS

Securities other than investments

	(15)
	(15)
	-
	(15)
Financial receivables and other non-current financial assets	
	(1,092)
	(2,830)
	1,738
	(2,648)
	(1,107)
	(2,845)
	1,738
	(2,663)
CURRENT FINANCIAL ASSETS	
Securities other than investments	
	(1,843)
	(185)
	(1,658)
	(185)

Financial receivables and other current financial assets

(1,115)

(828)

(287)

(491)

Cash and cash equivalents

(5,504)

(5,396)

(108)

(5,416)

(8,462)

(6,409)

(2,053)

(6,092)

Financial assets relating to Discontinued operations/Non-current assets held for sale

(81)

(20)

(61)

-

FINANCIAL ASSETS

(9,650)

(9,274)

	(376)
	(8,755)
NET FINANCIAL DEBT CARRYING AMOUNT	
	34,747
	34,039
	708
	34,039
Reversal of fair value measurement of derivatives and related financial assets/liabilities	
	(798)
	487
	(1,285)
	487
ADJUSTED NET FINANCIAL DEBT	
	33,949
	34,526
	(577)
	34,526

Detailed as follows:

TOTAL ADJUSTED GROSS FINANCIAL DEBT

42,980

41,745

1,235

41,226

TOTAL ADJUSTED FINANCIAL ASSETS

(9,031)

(7,219)

(1,812)

(6,700)

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

Bonds	*3,667*	*4,497*	*(830)*	*4,497*
Amounts due to banks, other financial payables and liabilities	*2,557*	*684*	*1,873*	*684*
Finance lease liabilities	*250*	*266*	*(16)*	*274*

(1) For purposes of comparison, the figures at December 31, 2008 have been restated in order to consider HanseNet Telekommunikation GmbH in Discontinued operations/Non-current assets held for sale.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. 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 floating-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, at around 60% - 70% for the fixed-rate component and 30% - 40% for the floating-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.

With this in mind and in order to present a more realistic analysis of net financial debt, already starting from the June 2009 report, in addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator was 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 instruments used are bond issues, alongside committed and uncommitted bank lines.

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

- allocating liquidity where necessary

- obtaining excess cash resources from the Group companies

- guaranteeing an adequate level of liquidity compatible with individual needs
- acting on behalf of its subsidiaries to negotiate bank lines
- providing financial consulting services to its subsidiaries

These activities reduce the Group companies need to seek bank lines and enable those companies to obtain better conditions from the banking system by keeping a constant watch over cash flows and ensuring a more efficient use of liquidity in excess of requirements.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2009:

Net operating free cash flow

(millions of euros)

2009

2008

Change

EBITDA	11,115	11,090	25
Capital expenditures on an accrual basis	(4,543)	(5,040)	497
Change in net operating working capital:	*(185)*	*(397)*	*212*
Change in inventories	*(30)*	*(74)*	*44*

Change in trade receivables and net amounts due on construction contracts	*336*	*737*	*(401)*
Change in trade payables (*)	*(376)*	*(1,008)*	*632*
Other changes in operating receivables/payables	*(115)*	*(52)*	*(63)*
Change in provisions for employees benefits	(173)	233	(406)
Change in operating provisions and Other changes	84	(250)	334

Net operating free cash flow	
	6,298
	5,636
	662
% of Revenues	
	23.2
	19.4
	3.8 pp

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

Net operating free cash flow amounts to 6,298 million euros in 2009 and shows an improvement of 662 million euros compared to the prior year. The change is mainly the result of the reduction in capital expenditure requirements (-497 million euros compared to 2008).

Capital expenditures flow

Capital expenditures flow is 4,543 million euros, decreasing 497 million euros compared to 2008. The breakdown is as follows:

(millions of euros)	**2009**		**2008**		**Change**
		% of total		*% of total*	
Domestic	3,523	*77.5*	3,658	*72.6*	(135)

Brazil other investments	964	*21.2*	871	*17.3*	93
Brazil 3G license purchase	-	-	477	*9.4*	(477)
Media, Olivetti and Other Operations	64	*1.4*	79	*1.6*	(15)
Adjustments and Eliminations	*(8)*	*(0.1)*	*(45)*		

(0.9)

37

Total

4,543

100.0

5,040

100.0

(497)

% of Revenues

16.7

17.4

(0.7)pp

Capital investments in 2008 had included 477 million euros for the purchase of mobile telephone licenses for the Brazil Business Unit s 3G service. The reduction in the Domestic Business Unit, although including 89 million euros for the purchase of frequencies assigned to the operator IPSE, is also due to the impact of programs to cut costs and capital expenditures begun in 2008.

The following also had an effect on net financial debt during 2009:

Disposal of investments and other divestitures flow

Disposal of investments and other divestitures flow amounts to 53 million euros (599 million euros in 2008) and mainly refers to the sale of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark (for total cash receipts of 13 million euros), the sale of the investment in Telecom Media News in 2009, after the necessary capitalization, and also the disposal of other tangible and intangible assets. In particular, the disposals of tangible assets included the cancellation of a contract for the purchase of an aircraft which involved the manufacturer s restitution of the advances that had been paid by Telecom Italia (about 21 million euros).

The flow in 2008 had mainly related to the sale, in August 2008, of Liberty Surf group (744 million euros, including the deconsolidation of the net financial debt of the subsidiary sold) and the sale of the Pay-per-View business in December 2008.

Financial investments and treasury shares buyback flow

Financial investments and treasury shares buyback flow amounts to 65 million euros and refers not only to the entry of Intelig Telecomunicações Ltda in the scope of consolidation but also to the buyback of a total of 11.4 million Telecom Italia ordinary shares purchased to service the top management incentive plan denominated Top Plan 2008. The average unit price was 0.92959 euros per share (including agent commissions) for a total payment of 11 million euros.

Moreover, in July 2009, the Parent, Telecom Italia, purchased on the market 39,500 Telecom Italia Media savings shares to add to the 221,000 Telecom Italia Media savings shares already held. Such purchases required a total disbursement of 4,470 euros, corresponding to the average cost of 0.11317 euros per share (including agent commissions).

The purchases of Telecom Italia and Telecom Italia Media shares were carried out through the financial agent Mediobanca which operated with a mandate for the purchase of the shares on behalf of the Company in complete autonomy and independently of Telecom Italia and in accordance with the Regulation of the markets organized and operated by Borsa Italiana S.p.A. and the relative instructions.

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

Finance expenses, taxes and other net non-operating requirements flow mainly includes the payment, made during 2009, of taxes (for 2,301 million euros, which comprise 248 million euros for tax disputes which had already been provided for in the financial statements of prior years), net finance expenses and also the change in non-operating receivables and payables.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during 2009 resulted in a positive effect on net financial debt at December 31, 2009 of 1,034 million euros (794 million euros at December 31, 2008).

Gross financial debt

Bonds

Bonds at December 31, 2009 are recorded for 30,036 million euros (30,177 million euros at December 31, 2008). Their nominal repayment amount is 29,106 million euros, increasing 286 million euros compared to December 31, 2008 (28,820 million euros).

The change in bonds during 2009 is as follows:

(millions of original currency)

currency

amount

NEW ISSUES

Issue date

Telecom Italia S.p.A. 500 million euros, 7.875% maturing 1/22/2014

Euro

500

1/22/2009

Telecom Italia S.p.A. 650 million euros, 6.75% maturing 3/21/2013

Euro

650

3/19/2009

Telecom Italia S.p.A. 850 million euros, 8.25% maturing 3/21/2016

Euro

850

3/19/2009

Telecom Italia S.p.A. 750 million pounds sterling, 7.375% maturing 12/15/2017

GBP

750

5/26/2009

Telecom Italia Capital S.A. 1,000 million U.S. dollars, 6.175% maturing 6/18/2014

USD

1,000

6/18/2009

Telecom Italia Capital S.A. 1,000 million U.S. dollars, 7.175% maturing 6/18/2019

USD

1,000

6/18/2009

REPAYMENTS

Repayment date

Telecom Italia Finance S.A. 5.15%, issue guaranteed by Telecom Italia S.p.A.

Euro

1,450(*)

2/9/2009

Telecom Italia S.p.A. Floating Rate Notes Euribor 3 months +0.60%

Euro

110

3/30/2009

Telecom Italia Finance S.A. 6.575%, issue guaranteed by Telecom Italia S.p.A.

Euro

1,849(**)

7/30/2009

BUYBACKS

Buyback period

Telecom Italia Finance S.A. 1,849(**) million euros 6.575% maturing July 2009

Euro

253.77

January June

Telecom Italia Finance S.A. 119 million euros Floating Rate

Notes maturing June 2010

Euro

20.00

March May

Telecom Italia S.p.A. 796 million euros Floating Rate Notes maturing June 2010

Euro

53.75

April May

Telecom Italia Finance S.A. 1,997 million euros 7.50% maturing April 2011

Euro

2.68

October

NOTES

Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group:

348 million euros (nominal amount) as of December 31, 2009, the same as of December 31, 2008.

Bond buybacks: in 2009, as in 2008, the Telecom Italia Group bought back bonds in order to:

- give investors a further possibility of monetizing their positions;
- partially repay some debt securities before maturity, increasing the overall return on the Group s liquidity without inviting any additional risks.

(*) Net of 50 million euros of bonds repurchased by the company in 2008.

(**) Net of 107 million euros and 254 million euros of bonds repurchased by the company in 2008 and in 2009.

Revolving Credit Facility and Term Loan

The composition and drawdown of the syndicated committed credit lines available at December 31, 2009,

Report on Operations 2009

Telecom Italia Group

represented by the Term Loan (TL) for 1.5 billion euros expiring January 2010 (repaid using available cash) and the Revolving Credit Facility (RCF) for a total of 8 billion euros expiring August 2014, are presented in the following table:

	12/31/2009		**12/31/2008**	
(billions of euros)	Agreed	Drawn down	Agreed	Drawn down
Term Loan expiring 2010	1.5	1.5	1.5	1.5
Revolving Credit				

Facility expiring 2014

8.0

1.5

8.0

1.5

Total

9.5

3.0

9.5

3.0

Lehman Brothers Bankhaus AG London Branch bank is the Lender of the Revolving Credit Facility and Term Loan for the following amounts:

.

under the RCF, the bank has a commitment for 127 million euros of which 23.8 million euros has been disbursed;

.

under the TL, the bank has a commitment for 19.9 million euros, for an amount completely disbursed, duly repaid at the line s expiration date (January 28, 2010).

With regard to 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.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities) is 7.46 years.

The 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 equal to about 5.4%.

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, 2009 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 7,347 million euros at December 31, 2009 (5,581 million euros at December 31, 2008) which, together with its unused committed credit lines of 6.5 billion euros, allows the Group to amply meet its repayment obligations over the next 18-24 months. During 2009, the situation in the European and United States financial markets made it possible to issue new bonds and obtain new loans at advantageous conditions. The higher level of liquidity at year-end 2009 compared to 2008 guarantees the coverage of requirements in connection with the repayment of loans in the early months of the year. In fact, in the first two months of 2010, repayments amounted to about 3.0 billion euros (about 1.5 billion euros in the first few months of 2009).

In February 2010, Telecom Italia S.p.A. issued bonds maturing in 2022 for 1,250 million euros and a new syndicated revolving facility was signed for 1,250 million euros for a period of 3 years.

Furthermore, 638 million euros classified in Financial receivables and other current financial assets refers to financial assets of the Group due from HanseNet Telekommuninkation GmbH which was fully repaid upon the sale of the company on February 16, 2010.

In particular:

.

Cash and cash equivalents amount to 5,504 million euros (5,396 million euros at December 31, 2008). The different technical forms of investing available cash at December 31, 2009, including euro commercial paper for 20 million euros, can be analyzed as follows:

-

Maturities: investments have a maximum maturity date of three months;

-

Counterpart risk: investments are made with leading banks and financial institutions with high-credit- quality and a rating of at least A;

-

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

.

Securities other than investments amount to 1,843 million euros (185 million euros at December 31, 2008). Such forms of investment represent alternatives to liquidity investments with the aim of raising the yield. These mainly consist of 900 million euros (nominal amount) in Italian treasury bonds purchased by Telecom Italia S.p.A. (with A ratings by S&P s); 200 million euros in a monetary fund, 200 million euros in a government fund, both with AAA ratings by S&P s and managed by a leading international credit institution; 112 million euros in bonds issued by counterparts with ratings of at least BBB with different maturities, but all with an active market, that is, readily convertible into cash; 350 million euros of securities invested in a Belgian-registered SICAV with at least an A rating.

***

As part of the ongoing investigation of Telecom Italia Sparkle and the related court order served on the company on February 23, 2010, the courts issued a seizure order for 298 million euros on Telecom Italia Sparkle corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation.

Moreover, on April 2, 2010, in addition to the amounts seized, Telecom Italia Sparkle provided two guarantees for a total amount of about 195 million euros on behalf of the courts (for about 72 million euros) and the Financial Administration (for about 123 million euros).

***

In the **fourth quarter of 2009, adjusted net financial debt** decreased 1,144 million euros. The effects of the positive operating change were only partly absorbed by tax payments.

	Adjusted net financial debt

(millions of euros)	12/31/2009	9/30/2009	Change
NET FINANCIAL DEBT CARRYING AMOUNT	**34,747**	**35,506**	**(759)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(798)*	*(413)*	*(385)*
ADJUSTED NET FINANCIAL DEBT			

33,949

35,093

(1,144)

Detailed as follows:

TOTAL ADJUSTED GROSS FINANCIAL DEBT

42,980

42,621

359

TOTAL ADJUSTED NET FINANCIAL ASSETS

(9,031)

(7,528)

(1,503)

***

Telecom Italia Group

Events Subsequent to December 31, 2009

With regard to subsequent events, reference should be made to the specific Note Events subsequent to December 31, 2009 in the consolidated financial statements at December 31, 2009 of the Telecom Italia Group.

Business Outlook for the Year 2010

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 2010-2012, are, for the full year 2010:

.

Organic revenues (at comparable exchange rates and scope of consolidation 2010): a contraction of 2% to 3% against the previous year;

.

Organic EBITDA: basically stable in comparison with the prior year;

.

Capital expenditures: approximately 4.3 billion euros;

.

Net adjusted debt: about 32 billion euros at year-end 2010.

Principal risks and uncertainties

The business outlook for 2010 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 2010.

Macroeconomic outlook

The crisis running through the world economy is characterized by a generalized contraction in consumption although at levels varying in intensity according to the different geographic position and sector locations.

Concerning the **Italian market,** the recessive dynamics have to a greater degree affected the demand for investments, purchases of durable goods and consumer goods and, to a lesser degree, services such as telecommunications.

With regard to the **South American market**, especially in reference to Brazil, it should be underscored how the traditional volatility which has distinguished these economies during international economic crises is at this time considerably reduced compared to the past.

In this scenario which is more favorable than in the past, it is expected that 2010 will show a modest economic growth after years of sustained growth, barring uncontrolled phenomena of volatility in the most important macroeconomic areas (inflation rates, interest rates and exchange rates) of the major Latin American countries, and, in particular, Brazil, particularly because of Brazil s recent progress in striking a balance in energy and solidity in terms of the balance in food resources which render the country less exposed to outside shocks than in the past.

Telecommunications market outlook

Telecommunications is proving to be one of the industries less exposed to a pro-cyclical trend by virtue of our company s growing need to communicate and its role which is now pivotal to the sector as an abilitator and multiplicator of productivity. This is also confirmed by the continuing growth of demand for data services through mobile telephony, such as e-mail access or the possibility of using the web via cell phones equipped with expanded 3G technology.

Moreover, the development prospects of the Domestic market concerning the penetration of value-added services and the revenues especially expected from the business clientele segment (professionals and small and medium enterprises) could be further affected by the general evolution of the macroeconomic picture, particularly by the unemployment rate, and such adverse trend could therefore affect expected revenues from the sale of telecommunications services and products.

In the South American telecommunications market, and most particularly in Brazil, further growth is expected foremost in the mobile telephone and broadband markets. In the latter segment, mobile broadband increasingly represents a particularly competitive alternative to fixed broadband, given that the upgrade required for the

fixed network to perform at the levels of service of the HSDPA networks (such as those of Tim Brasil) would be particularly costly (much more costly than in countries such as Italy which is less dispersive geographically and which can start from an qualitatively higher initial starting point.)

With this in mind, Tim Brasil will focus a large part of its investments in selective geographical development of the broadband network so that it can raise its market share in the broadband segment while paying particular attention to the equilibrium between investments and the relative return on capital.

In this general context, Telecom Italia is fully aware of the persisting world crisis and the possible impacts on its business performances and guarantees a constant monitoring of the performance of its most exposed business segments. Furthermore, it is continuing to put into practice efficiency and expenditure optimization projects aimed at ensuring that the objectives are reached for providing cash flows and reducing debt.

Financial risks

In February 2010, Telecom Italia S.p.A. continued to refinance its debt by issuing 5.25% bonds for 1,250 million euros, maturing in 2022. Also, a new 3-year syndicated revolving facility has been signed with leading banks for 1,250 million euros.

The Telecom Italia Group pursues a financial risk management policy for market, credit and liquidity risk by defining, at the corporate level, the guidelines for operations management, the identification of the most suitable financial instruments to meet prefixed objectives, the monitoring of results achieved and the exclusion of recourse to derivative instruments for speculative purposes.

The Group particularly subscribes to an objective of an adequate level of financial flexibility expressed by keeping a treasury margin in terms of liquid assets and syndicated committed credit line which allow refinancing needs to be met for the next 12-18 months.

This particular situation of the financial markets has led the Telecom Italia Group to adopt an approach that is more prudent than the policy cited above and at the end of 2009 the Group has a treasury margin capable of meeting its repayment obligations for the next 18-24 months. Consequently, the Telecom Italia Group can wait for the most appropriate moment to access the financial market. Further details are provided in the Note Financial risk management in the annual consolidated financial statements at December 31, 2009 of the Telecom Italia Group.

Separate Consolidated Income Statements

Telecom Italia Group

Consolidated Statements of Comprehensive Income

In accordance with revised 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 consolidated income statements and all non-owner changes in equity.

Report on Operations 2009

Telecom Italia Group

Consolidated Statements of Financial Position

(1) For purposes of comparison, the figures at December 31, 2008 have been restated in order to consider HanseNet Telekommunikation GmbH in "Discontinued operations/Non-current assets held for sale.

Consolidated Statements of Cash Flows

Report on Operations 2009

Telecom Italia Group

Additional Cash Flow Information

The data of the Telecom Italia Group is presented in this Annual Report according to the following operating segments:

- **Domestic** Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the relative support activities;

- **Brazil** Business Unit: includes telecommunications operations in Brazil;

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

- **Olivetti** Business Unit: includes activities for the manufacture of digital printing systems and office products;

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

As a result of including 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. For purposes of comparison, the disclosure by operating segment for the periods under comparison has been consistently restated:

Revenues
EBITDA
EBIT

Capital expenditures

Headcount at year-end
(number)

(millions of euros)

2009

2008

2009

2008

2009

2008

2009

2008

2009

2008

Domestic	
	21,662
	23,227
	9,865
	9,959
	5,394
	5,405
	3,523
	3,658
	58,736
	61,816
Brazil	
	5,022
	5,208
	1,255

1,217

209

189

964

1,348

9,783

10,285

Media

230

287

(9)

(59)

(80)

(113)

53

50

757

967

Olivetti

350

352

(14)

(30)

(19)

(37)

4

3

1,098

1,194

Other Operations

158

218

(6)

19

(34)

(15)

8

26

1,010

1,058

Adjustments and Eliminations

(259)

(292)

(6)

(16)

23

8

(9)

(45)

-

-
Consolidated total
27,163
29,000
11,115
11,090
5,493
5,437
4,543
5,040
71,384
75,320

Highlights of the operating data of the Telecom Italia Group Business Units are presented in the following table.

	12/31/2009	12/31/2008	12/31/2007
DOMESTIC FIXED			
Fixed-line network connections in Italy at period-end (thousands)	18,525	20,031	22,124
Physical accesses (Consumer +Business) at period-end (thousands)			

	16,097	17,352	19,221
Voice pricing plans (thousands)	5,417	5,834	6,375
Broadband accesses in Italy at period-end (thousands)	8,741	8,134	7,590
of which retail accesses (thousands)	*7,000*	*6,754*	*6,427*
Virgilio average daily page views during period (millions)	44.7	44.8	40.4

Virgilio average daily single visitors (millions)	3.2	2.5	2.1
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	110.5	109.3	106.8
- access and carrier network in optical fiber (millions of km - fiber)	4.1	3.9	3.8

Network infrastructure abroad:			
- European backbone (km of fiber)	55,000	55,000	55,000
- Mediterranean (km of submarine cable)	7,000	7,000	7,000
- South America (km of fiber)	30,000	30,000	30,000

Total traffic:

Minutes of traffic on fixed-line network (billions)	134.4	144.3	156.8
- Domestic traffic	115.6	125.3	140.1
- International traffic	18.8	19.0	16.7

DOMESTIC MOBILE

Number of lines at period-end (thousands)	
	30,856
	34,797
	36,331
of which prepaid lines (thousands) ([1])	
	24,398
	28,660
	30,834
Change in lines (%)	
	(11.3)
	(4.2)
	12.0
Churn rate ([2])	
	30.1
	23.6
	16.4
Total outgoing traffic per month (millions of minutes)	
	2,982
	3,054

2,766

Total outgoing and incoming traffic per month (millions of minutes)

4,260

4,316

4,052

Average monthly revenues per line ([3])

20.0

20.0

22.2

BRAZIL

Number of lines at period-end (thousands)

41,102

36,402

31,254

MEDIA

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

(1) Excluding not human SIM.

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

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

The Business Units of the Telecom Italia Group

Domestic

The Business Unit

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..

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

The principal operating and financial data of the Domestic Business Unit is now 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 products managed and developed for persons and families in the fixed and mobile telecommunications markets, public telephony and the web portal/services of 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 SOHO (Small Office Home Office) in the fixed and mobile telecommunications markets;

•

Top: Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, 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 operators in the domestic market;

•

Other (support structures): Other includes:

§

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

§

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

The Business Unit of the Telecom Italia Group

•

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

Main operating and financial data

Key results in 2009 by the Domestic Business Unit overall and by segment of clientele and business compared to 2008 are presented in the following tables.

Domestic Business unit

(millions of euros)	**2009**	**2008**	**Change**		
			amount	%	% organic

Revenues

21,662

23,227

(1,565)

(6.7)

(6.8)

EBITDA

9,895

9,959

(64)

(0.6)

(2.1)

EBITDA margin

45.7

42.9

2.8 pp

2.3 pp

EBIT

5,394

5,405

(11)

(0.2)

(1.6)

EBIT margin

24.9

23.3

1.6 pp

1.4 pp

Capital expenditures

3,523

3,658

(135)

(3.7)

Headcount at year-end (number)

58,736

61,816

(3,080)

(5.0)

Core Domestic

(millions of euros)	2009	2008	Change		
			amount	%	% organic
Revenues [1]	20,579				
. *Consumer*	10,999				
. *Business*	3,730				
. *Top*					
. *National Wholesale*					
. *Other*					

3,688
1,996
166
22,104
12,195
4,124
3,819
1,738
228
(1,525)
(1,196)
(394)
(131)
258
(62)
(6.9)
(9.8)
(9.6)
(3.4)
14.8
n.s.
(6.9)
(9.8)
(9.5)
(3.4)

14.9

n.s.

EBITDA

9,561

9,592

(31)

(0.3)

(1.7)

EBITDA margin

46,5

43,4

3.1 pp

2.5 pp

EBIT

5,190

5,163

27

0.5

(0.9)

EBIT margin

25. 2

23.4

1.8 pp

	1.6 pp
Capital expenditures	3,434
	3,501
	(67)
	(1.9)
Headcount at year-end (number)	57,467
	60,539
	(3,072)
	(5.1)

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

47

Report on Operations 2009

The Business Unit of the Telecom Italia Group

International Wholesale

(millions of euros)	**2009**	**2008**	**Change**		
			amount	*%*	% organic
Revenues	1,710				
. of which third parties	*1,208*				

1,830

1,267

(120)

(59)

(6.6)

(4.7)

(7.1)

(5.5)

EBITDA

350

375

(25)

(6.7)

(8.2)

EBITDA margin

20.5

20.5

EBIT

209

236

(27)

(11.4)

				(13.8)
EBIT margin	*12.2*	*12.9*		
Capital expenditures	122	163	(41)	(25.2)
				(26.1)
Headcount at year-end (number)	1,269	1,277	(8)	(0.6)

Revenues

Core Domestic Revenues

In particular, as regards the market segments, for the year 2009, the following changes compared to 2008 are noted:

- **Consumer**: during 2009, the commercial policy of the mobile business underwent a fundamental transformation. In particular, the difficult macroeconomic context featuring a drop in usage by some brackets of the population and a fiercer competitive scenario required a rapid repositioning of TIM s packages. From the traditional focus on the mobile device as the important driver of choice by the final customer and incentivation of the commercial network, there was a shift to a policy strongly rooted in effective advertising communication, on packages that further retain customers and a remuneration of the channel linked to the effective quality of the customer acquired.

  Specifically, the reduction in Consumer segment revenues is 1,196 million euros (-9.8%), of which 742 million euros (-6.6%) refer to service revenues and 454 million euros (-49.1%) to product sales (mobile devices in particular). The reduction in service revenues (-742 million euros) can be ascribed to both the decrease in revenues from fixed voice (-333 million euros, -8%) and outgoing Mobile voice (-213 million euros or -6%). This is principally due to the contraction of the customer base, the impact of the change in regulated interconnection rates, especially mobile termination revenues (down 168 million euros, of which 122 million euros is due to rate reductions) and the decrease in traditional value-added service revenues (for messaging, a reduction of 76 million euros or -9%) and content revenues (-61 million euros or -24%). Such changes in the traditional business areas were in part offset by the growth of the customer base and broadband service revenues in the fixed area (+114 million euros or +13%) and mobile area (+42 million euros or +12%);

- **Business**: the contraction in revenues (-394 million euros compared to 2008 or -9.6%, -9.5% at organic level) is mainly due to the continuation of the economic difficulties encountered in 2009 by small and medium businesses resulting in a reduction of usage. In addition to this, there was a contraction in the Customer Base: less significant than the prior year in the Fixed area and more prominent in the Mobile area. The reduction in revenues grew in both areas: Fixed -11% and Mobile -9%, even though the last period brought a lower decrease compared to 2009 third quarter. Nevertheless, in this context, positive trends were noted in the comparison of the two years such as the stability of Fixed Broadband revenues, the growth of Fixed Data Services (+3%) and the growth of mobile browsing revenues (+16%);

- **Top**: revenue performance (-131 million euros or -3.4% year-on-year and -1.9% in the fourth quarter) is principally due to the ongoing contraction of the voice and data area (-8.7% year-over-year with a decrease of 7.7% in the fourth quarter). This is also linked to the economic scenario and the consequent reduction in usage by companies. Such change is partly offset by the continual, strong growth of ICT solutions and offerings (+15.3% year-on-year and +15.3% in the fourth quarter) with an increase in market share from about 9.2% in December 2008 to 11.4% in December 2009, as well as the improvement in the mobile area (-0.1% year-on-year with a decrease of -0.1% in the fourth quarter);

The Business Unit of the Telecom Italia Group

·

National Wholesale: the increase in revenues (+258 million euros or +14.8%; 14.9% in organic terms) is generated by the growth of the OLO (Other Licensed Operators) customer base on Local Loop Unbundling, Wholesale Line Rental and Bitstream services.

International Wholesale Revenues

In 2009, International Wholesale (Telecom Italia Sparkle group) reported revenues of 1,710 million euros, down 120 million euros compared to 2008 (-6.6%) owing to the reduction in revenues from voice services both in the captive market and with third parties. The positive performance of IP/Data, Multinational Corporations and Consulting businesses was in part offset by the above reduction in voice services.

***

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)

2009

2008

Change %

Market segment	Total	Fixed (*)	Mobile(*)	Total	Fixed (*)	Mobile(*)	Total	Fixed (*)	Mobile(*)
Consumer	10,999	5,037	6,251	12,195	5,285	7,270	(9.8)		

(4.7)

(14.0)

Business

3,730

2,472

1,315

4,124

2,765

1,440

(9.6)

(10.6)

(8.7)

Top

3,688

2,956

823

3,819

3,053

824

(3.4)

(3.2)

(0.1)

National Wholesale

1,996

2,758

	194
	1,738
	2,320
	107
	14.8
	18.9
	81.3
Other (support structures)	
	166
	174
	14
	228
	162
	46
	n.s
	n.s
	n.s.
Total Core Domestic	
	20,579
	13,397
	8,597
	22,104
	13,585
	9,687

(6.9)

(1.4)

(11.3)

International Wholesale

1,710

1,710

1,830

1,830

(6.6)

(6.6)

Eliminations

(627)

(368)

(707)

(415)

n.s

n.s

Total Domestic

21,662

14,739
8,597
23,227
15,000
9,687
(6.7)
(1.7)
(11.3)

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

Fixed Telecommunications Revenues

In 2009, revenues of the fixed telecommunications area amount to 14,739 million euros, decreasing 261 million euros (-1.7%) compared to the prior year. At the organic level, the change in revenues is a reduction of 279 million euros (-1.9%).

At December 31, 2009, the number of retail voice accesses is approximately 16.1 million (-1,255,000 accesses compared to December 31, 2008). The wholesale customer portfolio increased and at December 31, 2009 reached approximately 6.2 million accesses (+1,221,000 accesses compared to December 31, 2008). The overall access market recorded basic stability compared to December 2008.

The total broadband portfolio at December 31, 2009 is equal to 8.7 million accesses (+607,000 accesses compared to December 31, 2008), of which retail is 7.0 million and wholesale is 1.7 million.

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

<u>Fonia Retail</u>

(millions of euros)	**2009**	**2008**	**Change**	
	% of total	*% of total*	amount	%

Traffic

2,726

40.1

3,118

41.4

(392)

(12.6)

Accesses

3,491

51.3

3,668

48.8

(177)

(4.8)

VAS voice services

207

3.0

252

3.3

(45)

(17.9)

Telephone products

380

5.6

486

6.5

(106)

(21.8)

Total Retail Voice

6,804

100.0

7,524

100.0

(720)

(9.6)

Retail voice revenues, in all major business areas, show an ongoing reduction in the customer base and traffic volumes due to the competitive environment in which the company operates. Combined with this are a reduction of regulated fixed-mobile termination rates and the discontinuance of certain mandatory or voluntary Premium services (offered by the company on a mandatory or voluntary basis): in fact, VAS service revenues decreased 45 million euros compared to 2008. The economic impact in terms of lower revenues from accesses (-177 million euros), despite the increase in subscriber charges which came into effect on February 1, 2009 for the domestic business, is nevertheless compensated by the expansion of national wholesale services (+170 million euros for regulated intermediate services such as Local Loop Unbundling and Wholesale Line Rentals).

Internet

	2009		2008		Change	
(millions of euros)		*% of total*		*% of total*	amount	%
Total Internet	**1,707**	*100.0*	**1,630**	*100.0*		

77

4.7

of which content/portal

144

8.4

120

7.4

24

20.0

Revenues from internet are 1,707 million euros, increasing 77 million euros compared to 2008. The Narrowband component continues to decline and now represents only about 2% of total revenues. The total domestic retail broadband access portfolio in the domestic market reached 7.0 million accesses, growing 246,000 compared to the end of 2008. Flat-rate packages now account for 83.0% of the total retail broadband customer portfolio (77% at year-end 2008). IPTV services continue to gain ground in the Consumer market (the portfolio has 401,000 customers, +72,000 compared to the end of 2008) and the Virgilio portal Web packages and activities grew. The Alice Casa offering has a portfolio of 621,000 customers (+503,000 compared to December 31, 2008) and accounts for 8.9% of the broadband portfolio compared to 1.7% at December 2008.

Business Data

2009

2008

Change

(millions of euros)

% of total

%

of total

amount

%

Leased lines

190

11.0

198

11.5

(8)

(4.0)

Data transmission

505

29.2

552

32.1

(47)

(8.5)

Data products

204

11.8

211

12.3

(7)

(3.3)

ICT

831

48.0

759

44.1

72

9.5

of which ICT services

510

448

62

13.8

of which ICT products

321

311

10

3.2

Total Business Data

1,730

100.0

1,720

100.0

10

0.6

Revenues of the Business Data area rose by 10 million euros (+0.6%) compared to 2008. The growth in the packages offered for ICT services and products is especially notable and those revenues increased 72 million euros (+9.5%), above all in the services area which grew by 13.8%.

Wholesale

(millions of euros)	**2009**	*% of total*	**2008**	*% of total*	**Change** amount	%
National Wholesale	2,888	*70.1*				

2,459

65.1

429

17.4

International Wholesale (*)

1,229

29.9

1,318

34.9

(89)

(6.8)

Total Wholesale

4,117

100.0

3,777

100.0

340

9.0

(*) Includes sales to the third-party market and to domestic Mobile Telecommunications.

The customer portfolio of Telecom Italia s Wholesale division reached about 6.2 million accesses for voice services and 1.7 million for broadband services at the end of 2009.

On the whole, revenues from national wholesale services show an increase of 429 million euros (+17.4%) compared to 2008. 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

The program for the fundamental transformation of the mobile business commercial policy in the Consumer segment, as described earlier, led to a significant reduction in mobile devices sold which went from 7.9 million in 2008 to about 4.8 million in 2009, with noticeable benefits in terms of the contribution margin of the Domestic Business Unit.

Having said this, Mobile telecommunications revenues total 8,597 million euros, decreasing 1,090 million euros (-11.3%) compared to 2008. In fact, the new strategic direction led to a strong contraction in mobile handset revenues (-44%) in addition to the effects of the anticipated decrease in regulated interconnection rates and the reduction in the customer base which primarily occurred in the first part of the year. The excellent results obtained from mobile broadband plans, moreover, made it possible to offset in part the declining trend of valued-added traditional services (SMS).

At December 31, 2009, the number of Telecom Italia mobile lines is about 30.8 million. The reduction compared to December 31, 2008 can be attributed to greater selectivity in the sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the cessation of silent lines.

The following chart summarizes the trend of the main types of revenues:

Outgoing Voice

Outgoing voice revenues total 4,583 million euros, decreasing 386 million euros (-7.8%) compared to 2008, mainly as a result of the reduction in the customer base.

Incoming Voice

Incoming voice revenues amount to 1,511 million euros, decreasing 173 million euros (-10.3%) compared to 2008, principally due to the reduction of prices for termination on the mobile network and marginally also to the above-mentioned contraction in the customer base.

Value-Added Services (VAS)

Value-added services (VAS) revenues amount to 2,022 million euros, decreasing 6.9% compared to 2008. Such contraction is primarily attributable to VAS content (ring tones, logos and games) following a drop in the usage of such services caused by the general economic situation. The ratio of VAS revenues to revenues from services is about

25%, in line with the 2008 average.

Handset Sales

Handset sales revenues are 482 million euros, decreasing 378 million euros compared to 2008. The reduction is due to lower quantities sold in response to a more selective sales policy that rationalizes the product portfolio and focuses on quality (higher percentage of advanced handsets and devices using mobile internet) and also to the margins on these same handsets and devices.

***

EBITDA

EBITDA of the Domestic Business Unit amounts to 9,895 million euros, decreasing 64 million euros compared to 2008 (-0.6%). The EBITDA margin is 45.7%, up 2.8 percentage points over 2008.

The organic change in EBITDA is a negative 211 million euros (-2.1%) compared to 2008 with an EBITDA margin of 46.5% (44.2% in 2008). Details are as follows:

(millions of euros)	2009	2008	Change
HISTORICAL EBITDA	**9,895**	**9,959**	**(64)**
Effect of translation of foreign currency financial statements		3	(3)
Non-organic (income) expenses			

Mobility expenses under Law 223/91		*287*	*(287)*
Disputes and settlements	*154*	*33*	*121*
Other expenses, net	*25*	*3*	*22*
COMPARABLE EBITDA	**10,074**	**10,285**	**(211)**

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

.

acquisition of goods and services totals 8,332 million euros, decreasing 1,317 million euros (-13.6%) compared to 2008. The change is mainly due to a reduction in the amount to be paid to other operators, partly following the reduction in the termination rates of voice calls on the network of other operators from the fixed and mobile network, and lower purchases of products for resale, in addition to keeping commercial expenses in check, particularly those related to customer acquisition. The latter reduction is connected with the Group s strategy of focusing on higher-value customers;

.

employee benefits expenses amount to 3,327 million euros, decreasing 311 million euros compared to 2008. In fact, in 2008, expenses and accruals had been provided for 287 million euros in connection with the mobility procedure under Law 223/91. Excluding such effect, employee benefits expenses recorded a reduction of 24 million euros. The contraction in the average headcount (-2,576 compared 2008) is mainly offset by the effect of the increase in minimum salaries established by the TLC collective national labor contract since June 2008 and the renewal of the collective national labor contract on October 23, 2009.

EBIT

EBIT is 5,394 million euros, decreasing 11 million euros (-0.2%) compared to 2008. The EBIT margin is 24.9% (23.3% in 2008).

EBIT performance can be attributed, apart from the factors commented under EBITDA, to lower depreciation and amortization charges of 116 million euros (largely due to the reduction in amortizable assets) and the negative balance between gains and losses for 69 million euros. In this sense, during 2009, the credit management platform for fixed consumer clientele was disposed of since it is no longer considered usable in light of the new organizational structure of the Domestic Business Unit and the continuance of the fixed-mobile convergence process.

The organic change in EBIT is a negative 93 million euros (-1.6% compared to 2008). The EBIT margin is 25.9% (24.5% in 2008). Details are as follows:

(millions of euros)

	2009	2008	Change

HISTORICAL EBIT	
	5,394
	5,405
	(11)
Effect of translation of foreign currency financial statements	
	1
	(1)
Non-organic (income) expenses	
Non-organic expenses already described under EBITDA	
	179
	323
	(144)
Non-recurring gains on disposal of properties	
	(25)
	25

Loss (Gains) on tangible and intangible assets	*38*
	38
COMPARABLE EBIT	**5,611**
	5,704
	(93)

53

Report on Operations 2009

The Business Unit of the Telecom Italia Group

Capital expenditures

Capital expenditures total 3,523 million euros, decreasing 135 million euros compared to 2008. The percentage of capital expenditures to revenues is 16.3% (15.7% in 2008). The euro reduction is largely due to the optimization and the rationalization of capital expenditures for the Broadband Access network, Core Platforms and Control, Service and Application Platforms, as well as lower commitments associated with mobile packages (either rented or in connection with multi-year contracts) and the acquisition of Wi-Max licenses.

The reduction in the Domestic Business Unit, although including 89 million euros for the purchase of part of the frequencies assigned to IPSE, is also the result of the diffusion of the effects of the cost and capital expenditure reduction plans begun during 2008.

Headcount

Headcount is 58,736, with a reduction of 3,080 compared to December 31, 2008.

Commercial developments

.

At the beginning of 2009, the Impresa Semplice plan was launched which offers a portfolio of integrated solutions dedicated to SMEs. The Impresa Semplice solutions include accesses to fixed and mobile networks, voice and data communications systems, messaging and collaboration tools, telecommunications products and computer work stations (PCs, including assistance, original software and in the cloud services), hosting and virtualization of hardware and software resources. Thanks to high-speed full IP access networks, hardware resources and software applications available at Telecom Italia s Data Centers, Companies may also gain access to more sophisticated ICT services at limited costs.

.

On March 3, 2009, Telecom Italia sealed an agreement with Mediaset through which it will be possible to access content in the Mediaset Premium package through Alice Home TV. This package boosts the Telecom Italia IPTV platform with new content adding films, TV series, cartoons and the best of the soccer Serie A TIM Championships.

.

On June 5, 2009, Telecom Italia and Aria signed a series of agreements which will allow them to focus their respective strategies and build infrastructural synergies with the aim of closing the Digital Divide and extending high-speed internet access to those areas of Italy that have not yet been reached by ADSL service. The first agreement calls for the operator Aria s right to use Telecom Italia s Wi-Max frequencies in the regions of central and southern Italy such as Abruzzi, Umbria, Latium, Molise, Apulia, Campania, Basilicata, Calabria and Sardinia. At the same time, Aria will see that the minimum coverage is reached, guaranteeing the commitments undertaken with the Ministry of Economic Development. Under the agreement, Telecom Italia could also supply broadband using Wi-Max technology to its own customers throughout Italy, thanks to Aria s white label wholesale package. Finally, thanks to another agreement between the parties, Aria will use Telecom Italia s transport network infrastructures to build its own network.

.

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

.

On July 3, 2009, Telecom Italia and 3 Italia sealed a co-siting agreement to share the access sites to the mobile network which regards both the existing sites and those that will be built in the future. The subject of the agreement is the so-called passive infrastructures: poles, cables, power supply and air-conditioning systems and other civil infrastructures. Maintaining the ownership of their own infrastructures, each operator will host the mobile stations of their partner with the aim of optimizing network coverage all over the country. The agreement is for three years, is renewable and when fully operational will cover 2,000 sites, ensuring an optimization of investments, a savings of 30% in costs and a reduction in the network development times of each operator.

.

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

.

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

.

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

.

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

.

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

Principal changes in the regulatory framework

Retail fixed markets

During 2009, AGCom (the national regulatory authority) approved the deregulation of the retail market for international fixed location call origination and for low-speed leased lines (in Resolutions dated October 13, 2009 and December 10, 2009, respectively).

On December 16, 2009, AGCom approved Resolution 731/09/CONS relating to Telecom Italia s obligations in the markets for retail and wholesale access to the fixed network. With reference to the retail access market, the Regulator has introduced a series of measures to reduce the regulatory pressure on retail markets; in particular the price cap mechanism for the control of residential and business subscriber charges has been revoked. At the same time AGCom has maintained the obligation to notify new pricing plans and modifications to plans 30 days in advance introducing a clause providing for silence is consent at the end of that period. AGCom has also removed the existing ban on the bundling of services offered. Finally provision has been made for the maintenance of Telecom Italia s obligation to offer Wholesale Line Rental only in the areas where unbundled access services are not offered, at a price calculated according to the network cap method instead of the current retail minus regime.

Concerning the domestic fixed telephony market, the market analysis is still in progress.

Retail subscriber charges

With effect from February 1, 2009, Telecom Italia raised the monthly subscriber charges for residential customers from 12.14 euros to 13.40 euros. This increase had been authorized by AGCom in Resolution

719/08/CONS, published in the *Gazzetta Ufficiale* dated January 7, 2009.

Following AGCom s approval of the subscriber charge increase for residential customers, the WLR charge for a POTS line was also revised, increasing with effect from February 1, 2009 from 10.68 euros per month to 11.79 euros per month.

Wholesale fixed markets

In the same Resolution 731/09/CONS, AGCom confirmed the existing regulation of obligatory wholesale access to the copper wire infrastructure (unbundling and bitstream) while, for pricing, for the period 2010-2012 it has ordered a change to a network cap mechanism based on a BU-LRIC cost model in place of the existing cost-orientated mechanism. The resolution also provides for certain obligations concerning the market for access to next generation networks and in particular for access to dark fiber and to passive infrastructures.

On January 15, 2010 AGCom approved Resolution 2/10/CONS relating to the wholesale market for the termination segments of leased lines (so-called terminating *)* and to that for the segments of leased lines on long-distance circuits (so-called trunk). AGCom has removed the obligations affecting this latter market while for the termination segments market, solely for circuits connecting a Telecom Italia node and a mobile operator s BTS, it has provided for deregulation with effect from December 31, 2010. For the terminating market AGCom has introduced the network cap mechanism for the determination of prices in the period 2010 to 2012.

Finally, on December 10, 2009, AGCom commenced public consultation on the analysis of the markets for origination and termination services on the fixed network and for call transit services on the public fixed telephone network. For the origination and termination markets, AGCom has proposed the introduction of a BU-LRIC model for pricing in the period 2011 to 2012 and has set the new rates for the year 2010. With regard to transit services, the Regulator has proposed the deregulation of the domestic component of the market.

Fixed network operator migration

AGCom has revised the procedures for customer migration between fixed line operators, reducing the time needed to effect a migration to 10 working days from November 1, 2009 and to 5 working days from March 1, 2010 (reducing in particular the time needed for the so-called phase 2 which represents the point in the process at which the donating operator verifies the receiving operator s migration request). With Resolution 52/09/CIR, dated October 2009, AGCom has introduced a secret code for both activations and migrations which must be implemented by all operators by the end of January 2010 (moved to March 1, 2010).

Unbundled access and co-location services

On March 24, 2009, (with Resolution 14/09/CIR) AGCom approved Telecom Italia s Reference Offer relating to unbundled access services and co-location services for 2009 which, beginning January 1, 2009, set the rental fee for the LLU pair at 8.49 euros per month, an increase of 0.85 euros on 2008. In compliance with the aforementioned resolution, on June 8, 2009 Telecom Italia republished the Reference Offer for 2009.

Broadband access services (Bitstream)

On November 26, 2009, (with Resolution 71/09/CIR) AGCom approved the Reference Offer for Bitstream for 2009 which, with effect from January 1, 2009, provides for a reduction in the rental fee for ADSL access from 8.5 euros per month to 8.0 euros, for a generalized reduction in una tantum contributions and for a reduction of transport prices (the so-called bandwidth cost) of 9% on average for the ATM network and of 44% on average for the Ethernet network.

Mobile market

With Resolution 65/09/CONS dated February 13, 2009, AGCom concluded the second cycle of analysis of the market for mobile network call access and origination confirming that that market is not subject to ex ante regulation.

Mobile termination

With effect from July 1, 2009, Telecom Italia has reduced its termination rates for mobile voice calls in compliance with Resolution 667/08/CONS which has set a course for the progressive reduction (for the years 2009-2012) of the maximum termination rates charged by all mobile network operators, fixing for the first year of the glide path an amount of 7.70 eurocents per minute for Telecom Italia (the same amount for Vodafone whereas for Wind and H3G the amounts fixed are respectively 8.70 eurocents per minute and 11.0 eurocents per minute).

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

The process initiated by AGCom in February 2009 for the development of a new cost model for the mobile termination service, which gives the maximum weight to the European Commission s Recommendation on the regulation of fixed and mobile network termination rates in the EU, adopted on May 7, 2009 (2009/396/EC), is still in progress. The adoption of the new cost model based on the BU-LRIC method could lead, in the next years, to the revision of the termination rates fixed by AGCom in the aforementioned Resolution.

Frequencies

In February 2009, The Ministry approved the operating plan submitted by Telecom Italia, Vodafone and Wind for the rationalization of the 900 MHz frequency band. The plan includes two phases, the first (phase A), completed in November 2009, related to the reorganization of the 900 MHz band, the second (phase B) to be implemented over the period September 2011 to December 2013 will relate to the freeing of a section of 5 MHz to be assigned to the operator holding solely UMTS frequencies for 3G technologies.

Following the approval in July 2009 of the EU Directive which modifies the 1987 GSM Directive, operators of GSM services may, with the prior authorization of the Ministry, use GSM frequencies for 3G technologies (so- called refarming).

On June 9, 2009, the auction process for the assignation of rights of use to the 2100 MHz frequency band for 3G mobile services was concluded. Telecom Italia, Vodafone and Wind were each adjudicated one block of frequencies equal to 2 x 5 MHz. The price paid by Telecom Italia in July 2009 was 88,782,000 euros. The rights of use were assigned to Telecom Italia under a decision dated September 8, 2009 of the Telecommunications Department of the Ministry of Economic Development.

International roaming

On June 30, 2009, the European Parliament and Council s new Regulation on roaming within the EU came into force. Its provisions, which modified the previous regulation of this matter dated June 2007, included further progressive reductions in the rates for voice calls (retail and wholesale) and fixed price caps also for SMS (at both the retail and wholesale levels) and data (at the wholesale level), to apply within the 27 Member States from July 1, 2009. The new Regulation also includes obligations for greater transparency on data (retail) and, in particular, for the introduction from March 1, 2010 of expenditure limits to deal with the phenomenon of so-called bill-shock . The new norms will apply until the summer of 2012. The European Commission will re-examine the Regulation not later than June 30, 2011.

SMS

AGCom and the Antitrust Authority concluded in May 2009 a joint investigation into SMS, MMS and mobile data services without making any specific regulatory provisions but requesting operators to set rates which are consistent with the price caps established in the EU Regulation on Roaming and drawing attention to the need for greater transparency. Following the initiatives of the Regulator and of the Government, mobile operators have undertaken to voluntarily set a price cap for retail SMS services at the level of the Regulation on international roaming. In particular, Telecom Italia, from January 2010, will offer consumer customers a new SMS rate in line with the EU Regulation on international roaming and a form of charge for calls based on seconds and without a connection fee.

MNP and prepaid residual credit

As from November 2009, effect has been given to the provisions introduced by Resolution 78/08/CIR which fixed the new rules for Mobile Number Portability (MNP). AGCom has eliminated the inter-operator charge, simplified procedures and reduced porting time (from 5 to 3 working days). The AGCom Resolution has also eliminated the possibility for the customer to renounce portability. In August 2009, it became obligatory to allow the transfer of the residual credit in the case of portability of the mobile number.

Other matters

Broadband and the digital divide

With Law 69 dated June 18, 2009, economic and legal measures were introduced to assist in the development of broadband. In particular the law calls for:

.

the allocation of up 800 million euros (with 85% earmarked for the South of Italy) for the program of infrastructure work which the Government deems necessary for the technological updating of the electronic communications networks. To date, however, the resolution by CIPE establishing the effective distribution of the funds and the relative amount has not yet been issued;

.

a series of exemptions from and corrections to existing legislation in order to remove some legal obstacles and facilitate the operational realization of the networks.

Emerging platforms

With Resolution 665/09/CONS dated November 26, 2009, AGCom has identified the emerging platforms for the purposes of marketing sport audio-visual rights, namely IPTV and wireless platforms.

New EU legislation

On December 18, 2009, the following were published in the Official Gazette of the European Union: Directive 2009/136/EC of the European Parliament and of the Council dated November 25, 2009 which modifies Directive 2002/22/EC relating to the universal Service Obligation and to the rights of users of networks and of electronic communication services and Directive 2002/58/EC relating to the treatment of personal data and to the protection of privacy in the electronic communications sector, and Directive 2009/140/EC of the European Parliament and of the

Council dated November 25, 2009, which modifies Directive 2002/21/EC which establishes a common legal framework for networks and electronic communication, Directive 2002/19/EC relating to access to the electronic communications network and to the related resources and to the interconnection between the same and Directive 2002/20/EC relating to the authorizations for networks and electronic communications services. These two directives must be adopted in national legislation by May 25, 2011.

Also published on December 18, 2009 was Regulation (CE) 1211/2009 of the European Parliament and of the Council dated November 25, 2009 which institutes the body of European regulators of electronic communications (BEREC).

AGCom fee

In November 2008, AGCom approved the Resolution concerning payment of the fee to the Regulator for the year 2009, due by April 30, 2009, confirming the method of calculation applied for the preceding year (1.45 of 2007 revenues). Telecom Italia S.p.A. paid a total amount of 20,617,391.15 euros.

Competition

The market

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

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

In particular:

.

in Media, the scenario continues to be dominated by the vertically integrated players but with the Web having a growing importance as a complementary distribution platform and therefore with a possible role for the Telcos;

.

in Information Technology (where Italy has a level of investment relative to its GDP which is significantly lower than that of the United States or of other European countries), a strengthening of the Telco operators is expected also through partnerships and acquisitions;

.

in the Consumer Electronics market, the cell phones with greater functionality (such as the IPhone) distance the relationship between the customer and telecommunications operators, and other terminals, such as the games console, compete with the Telcos for the role of net enabler of the living room screen;

.

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

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

Competition in Fixed Telecommunications

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

In 2009, there has been a continuation of the migration of customers from fixed telephony to mobile telephony services and to alternative communications solutions (messaging, e-mail, chat etc.). For some years, for both private consumers and small and medium businesses there has been 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 and the PC, as well as by the quality of the service.

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

.

Wind-Infostrada, an integrated fixed-mobile operator focused on the retail mass market segment;

.

Fastweb, an operator focused on the positioning as technological leader offering broadband double and triple play packages with high value-added to retail and corporate customers, also offering mobile telephony services as an MVNO with H3G;

.

Tiscali, an operator focused on broadband services with dual play packages semplici e convenienti , also has a mobile telephony offering as the MVNO Tiscali Mobile with Tim;

.

TeleTu (formerly Tele2, purchased by Vodafone), positioned as price leader with entry-level plans for voice and broadband;

.

Vodafone, focused on the 2Play package (Vodafone Station) and on fixed-mobile cross-selling activities;

.

BT Italia, focused on business customers and ICT packages, also offering mobile telephony services as an MVNO with Vodafone.

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

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

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

Competition in Mobile Telecommunications

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

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

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

Alongside the 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.

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

.

competitive and regulatory pressure on retail and wholesale prices;

The Business Unit of the Telecom Italia Group

.

the development and introduction of new and alternative technologies for mobile telephony products and services (for example, mobile broadband);

.

the success/attractiveness of these new technologies.

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

.

Vodafone, strategy/perception as an innovative operator, attentive to the customer and strongly focused on the youth cluster;

.

Wind, focus on cost conscious segment with a portfolio of simple plans with immediate benefits for the customer;

.

H3G, operator focused on advanced value-added services (VAS) with competitive pricing (for example micro browsing, mobile broadband and mobile content).

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

Brazil

The Business Unit

The Telecom Italia Group operates in the mobile and fixed telecommunications markets in Brazil through the Tim Brasil group which offers mobile services using UMTS, GSM and TDMA technologies.

The structure of the Business Unit

The Tim Brasil group is organized as follows:

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

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

Main operating and financial data

Key results in 2009 compared to 2008 are presented in the following table:

	(millions of euros)		(millions of Brazilian reais)		
	2009	**2008**	**2009**	**2008**	**Change**
	(a)	(b)	(c)	(d)	

Amount

(c-d)

%

(c-d)/d

% organic

Revenues

5,022

5,208

13,907

13,951

(44)

(0.3)

(0.3)

EBITDA

1,255

1,217

3,476

3,259

217

6.7

9.6

E B I T D A margin

25.0

23.4

25.0

23.4

2.3 pp

EBIT

209

189

580

507

73

14.4

33.1

EBIT margin

4.2

3.6

4.2

3.6

1.3 pp

Capital expenditures

964

1,348

2,671

3,612

(941)

(26.1)

Headcount at year-end (number)

9,783

10,285

(502)

(4.9)

Revenues

Revenues total 13,907 million Brazilian reais, decreasing 44 million Brazilian reais compared to 2008 (-0.3%). Product revenues fell from 1,087 million Brazilian reais in 2008 to 1,059 million Brazilian reais in 2009 (-2.6%). Service revenues went from 12,864 million Brazilian reais in 2008 to 12,848 million Brazilian reais in 2009 (-0.1%); in this category of service revenues, VAS revenues increased 16.1% compared to the prior year backed by the growth of data packages with mobile broadband services and content services. The ARPU (average monthly revenue per user) is 28.2 Brazilian reais at December 2009 compared to 31.6 Brazilian reais at December 2008.

Total lines at December 31, 2009 number 41.1 million, up 12.9% compared to December 31, 2008, corresponding to a 23.6% market share on lines.

EBITDA

EBITDA is 3,476 million Brazilian reais, increasing 217 million Brazilian reais compared to the prior year (+6.7%). The EBITDA margin is 25.0%, up 1.6 percentage points over 2008. This result was achieved by an improvement in the cost structure leading to a recovery of efficiency which accompanied and sustained the higher expenses needed to relaunch Tim Brasil commercially. The cost components which grew compared to the previous year consequently refer to the expansion of the business. The organic change in EBITDA compared to 2008 is +312 million Brazilian reais with an EBITDA margin of 25.7% (23.4% in 2008).

During the first half of 2009, negotiations were concluded with Embratel regarding the dispute that began in 2005 over long-distance traffic and interconnection. The settlement produced a negative impact on EBITDA of 64 million Brazilian reais along with the recognition of amounts payable by Embratel that had been disputed and that had already been recorded in Tim Participações financial statements for 90 million Brazilian reais. In April 2009, moreover, following a burglary, an impairment loss was recorded on the San Paolo warehouse for 21 million Brazilian reais. Lastly, other costs incurred for the management and conclusion of the consolidation of Intelig amount to 10 million Brazilian reais.

(millions of Brazilian reais)
2009
2008
Change

HISTORICAL EBITDA	**3,476**	**3,259**	**217**
Costs for services associated with the settlement of a dispute	64	0	64
Other costs and expenses, net	31	0	31
COMPARABLE EBITDA	**3,571**	**3,259**	**312**

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

.

acquisition of goods and services total 7,777 million Brazilian reais, (8,107 million Brazilian reais in 2008). The reduction from last year (-330 million Brazilian reais) is largely the result of a decrease of 514 million Brazilian reais in purchases of raw materials, auxiliaries, consumables and merchandise and 489 million Brazilian reais in the portion of revenues to be paid to other telecommunications operators (2,623 million Brazilian reais in 2009, 3,112 million

Brazilian reais in 2008); these are partly offset by the increase of 536 million Brazilian reais in commissions, sales commission, other sales costs and advertising and promotion costs (for a total of 2,145 million Brazilian reais in 2009, 1,609 million Brazilian reais in 2008);

.

employee benefits expenses amount to 574 million Brazilian reais, decreasing 52 million Brazilian reais compared to 2008 (-8.3%) due to a variation in the composition and in the unit cost of the workforce. Average headcount went from 9,240 in 2008 to 8,900 in 2009. The percentage of employee benefits expenses to revenues is 4.1%, decreasing 0.4 percent compared to 2008;

.

other operating expenses amount to 2,043 million Brazilian reais, decreasing 14.2% (2,381 million Brazilian reais in 2008) mainly as a result of better performance registered in the management of postpaid customers. Such expenses consist of the following:

(millions of Brazilian reais)	2009	2008	Change
Writedowns and expenses in connection with credit management	422	749	(327)
Accruals to provisions	70	96	(26)
Telecommunications operating fees and charges	735	700	

			35
Taxes on revenues	750	755	(5)
Indirect duties and taxes	33	41	(8)
Sundry expenses	33	40	(7)
Total	**2,043**	**2,381**	**(338)**

EBIT

EBIT amounts to 580 million Brazilian reais, increasing 73 million Brazilian reais compared to 2008. This increase is due to a higher contribution by the EBITDA margin compared to 2008, in part offset by higher amortization and depreciation charges of 129 million Brazilian reais, mainly in connection with the 3G license purchased in the second quarter of 2008, and capital expenditures in respect of the new UMTS network and preserving the capacity and quality of the 2G network.

The organic change in EBIT is a positive 168 million Brazilian reais compared to 2008, with a positive EBIT margin of 4.9% (3.6% in 2008). Details are as follows:

(millions of Brazilian reais)	2009	2008	Change
HISTORICAL EBIT	**580**	**507**	**73**
Non-organic expenses already described under EBITDA	95	0	95
COMPARABLE EBIT	**675**	**507**	**168**

Capital expenditures

Capital expenditures amount to 2,671 million Brazilian reais, decreasing 941 million Brazilian reais compared to 2008 mainly due to the 3G license purchased in April 2008 for 1,239 million Brazilian reais.

Headcount

Headcount is 9,783 at December 31, 2009, a reduction of 502 people compared to December 31, 2008 (10,285). The foreign headcount at December 31, 2009 includes 580 people in reference to the entry of Intelig Telecomunicações Ltda in the scope of consolidation of the Brazil Business Unit.

Commercial developments

In 2009, the relaunching of the positioning and the relative sales strategy of the Tim Brasil group were directed to:

.

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

.

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

as in Rio de Janeiro where the price per minute has been reduced to 0.25 Brazilian reais until the end of 2016:

.

Business segment: the advertising campaign was created to publicize Tim Empresa Simples (Tim Simple Business), a converging plan in which mobile, fixed and broadband services are included in a single invoice. In September, Liberty Empresas was launched following the use of the community concept, with a monthly charge that gives the right to unlimited traffic (on net local and long-distance calls) and national roaming at no additional charge;

.

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

.

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

.

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

Competition

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

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

.

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

.

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

The public consultation process provides that any observations may be submitted to Anatel up until March 22, 2010.

Other relevant information

Acquisition of Intelig Telecomunicações Ltda

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

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

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

As a consequence, Tim Participações issued 127.3 million new shares (43.4 million ordinary shares and 83.9 million preferred shares) allocated to JVCO Participações and fully consolidated Intelig s statement of financial position at December 31, 2009.

Media

The Business Unit

In 2008, the Telecom Italia Media group changed its organizational structure in order to establish a focused and specific presence over La7 and MTV as a result of the increase in the number of channels and products now on several platforms (Free to Air, Web, satellite and Mobile), as well as the specifics of the different editorial profiles. It was therefore decided to more visibly distinguish the attributions of responsibility between the two companies; consequently, beginning January 1, 2009, the manner of presenting the income statement results and financial position has also been revised so that three specific business segments have been identified as follows:

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

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

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

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

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

Key results of the Business Unit for 2009 compared to 2008 are presented in the following table:

(millions of euros)	2009	2008	Change	
			amount	%
Revenues	230	287	(57)	(19.9)
EBITDA	(9)	(59)	50	84.7

EBITDA margin	
	(3.9)
	(20.6)
EBIT	
	(80)
	(113)
	33
	29.2
EBIT margin	
	(34.8)
	(39.4)
Capital expenditures	
	53
	50
	3
	6.0
Headcount at year-end (number)	
	757
	967
	(210)

(21.7)

The principal operating data of the sold Pay-per-View business, up to November 2008, and the data of the company Telecom Media News, up to April 30, 2009 and for 2008, are as follows:

(millions of euros)	**2009**	**2008**	**Change**	
			amount	%
Revenues	3	81	(78)	(96.3)
EBITDA	(2)	(23)		

21

91.3

EBIT

(2)

(25)

23

92.0

Tables and comments on the data for 2009 and 2008 restated by fully excluding the results relating to the business segment sold (Pay-per-View) and the company Telecom Media News, are as follows:

(millions of euros)	**2009**	**2008**	**Change**	
			amount	%
Revenues	227	215		

12

5.6

EBITDA

(7)

(36)

29

80.6

EBITDA margin

(3.1)

(16.7)

EBIT

(68)

(97)

29

29.9

EBIT margin

(29.9)

(45.1)

Capital expenditures

53

48

5

10.4

Headcount at year-end (number)

757

856

(99)

(11.6)

Revenues

Revenues amount to 227 million, increasing 12 million euros (+5.6%) compared to 215 million euros in 2008. In greater detail:

- revenues of Telecom Italia Media S.p.A. in 2009, before intragroup eliminations, amount to 114 million euros, increasing 16 million euros (+16.7%) compared to 2008. Net advertising revenues rose by 11 million euros compared to 2008 or +13.2%, Digital Content sales for Telecom Italia grew (+6 million euros) and other activities decreased (-1 million euros);

- revenues of the MTV Group amount to 97 million euros, before intragroup eliminations, decreasing 14.3% (-17 million euros) compared to 2008 (114 million euros). This result is mainly attributable to lower net advertising revenues (-16 million euros);

- revenues relating to Network Operator activities, before intragroup eliminations, amount to 50 million euros compared to 44 million euros in 2008 (+11.9%). This result is principally due to higher revenues from the rental of bandwidths to third parties, offset in part by lower invoicing of digital bandwidth for the Pay-per-View activities that were sold to Dahlia TV at year-end 2008. The contract with Dahlia TV, after an experimental period in the first four months of 2009 associated with the start-up phase, became fully operational starting from the second quarter.

The Business Unit of the Telecom Italia Group

EBITDA

EBITDA is a negative 7 million euros (-36 million euros in 2008) and recorded a positive change of 29 million euros (+80.6%).

The loss of Telecom Italia Media S.p.A., almost half that of the prior year and now down to -38 million euros, is an improvement of 28 million euros compared to 2008 (-66 million euros). This improvement, besides the above higher revenues, can also be ascribed to lower La7 programming costs for 14 million euros, mainly concentrated in the entertainment sector (8 million euros), and recoveries of productivity.

EBITDA of the MTV Group decreased 4 million euros compared to 2008. To deal with the fall in advertising, as early as the end of the first quarter, MTV initiated a program for the reorganization of the company. This program has led to cost savings of 14 million euros which are predominantly concentrated in production activities and has made it possible to minimize the impact of the reduction of revenues on EBITDA.

EBITDA relating to Network Operator activities improved by 2 million euros compared to 2008 and is attributable to the above-noted increase in revenues, net of higher operating costs.

EBIT

EBIT amounts to -68 million euros (-97 million euros in 2008), with an improvement of 29 million euros. The change is entirely due to the aforementioned improvement in EBITDA.

Capital expenditures

Capital expenditures overall amount to 53 million euros (48 million euros in 2008). Such expenditures refer to Telecom Italia Media S.p.A., the MTV group and Telecom Italia Media Broadcasting, respectively, for 27 million euros, 4 million euros and 22 million euros, mostly for the acquisition of television rights extending beyond one year (25 million euros) and the acquisition of infrastructures for the expansion and maintenance of the digital network (21 million euros).

Headcount

Headcount is 757 at December 31, 2009, with a reduction of 99 compared to December 31, 2008 and includes 38 people with temp work contracts (75 at December 31, 2008). The reduction in headcount is consequent to actions designed to recover overall efficiency based on measures for the reorganization and optimization of technical and production structures.

Principal changes in the regulatory framework

With Law 101 dated June 6, 2008, enacting urgent provisions for the implementation of EU obligations and for compliance with the orders of the European Court of Justice, in the light of the objections raised by the EU Commission concerning the management of television broadcasting frequencies, the following measures have been introduced: a) a general authorization mechanism for network operators also in the phase of transition from analog technology to digital terrestrial technology, b) the definition of a timetable for the switch-off of analog television by geographic area, aimed at achieving a progressive digitalization of the television networks to be completed by the end of 2012 and c) the definition by AGCom of procedures for the assignation of rights of use over the digital television network frequencies.

With the subsequent AGCom Resolution 181/09/CONS, converted into basic law with the 2008 Community Law , the criteria were established for the complete digitalization of the terrestrial television networks and the so-called digital dividend was quantified as being equal to five DVBT television networks and a possible DVBH. These resources will be assigned using selection procedures based on objective, proportionate, transparent and non-discriminatory criteria, applying the principles established in the EU legislation.

AGCom is also establishing procedures for the assignation of the rights of use over the digital dividend frequencies and the Ministry of Economic Development (formerly the Ministry of Communications) will subsequently adopt the actuating measures (regulations and bids process) proceeding to the assignation of the rights of use to the operators selected at the conclusion of the procedure.

AGCom will also publish the national plan for the assignment of frequencies (PNAF) a measure which is necessary for the choice of frequencies by the operators for all the areas subject to complete digitalization.

With regard to the measures adopted for the assignation of digital frequencies, the Telecom Italia Media Group has presented an extraordinary appeal to the President of the Republic on the grounds that TIMB has been assigned (in Valle d Aosta, Western Piedmont, Trento Alto Adige, Latium and Campania) three digital frequencies rather than four as occurred in Sardinia.

Finally, approval was given on March 15, 2010 to Legislative Decree 44 Implementation of Directive 2007/65/EC relative to the coordination of specific legislative, regulatory and administrative measures of member States concerning the exercise of television broadcasting activities published in the Gazzetta Ufficiale Issue 73 dated March 29, 2010, enacting Directive 2007/65/EC (the so-called directive on audio-visual media services) which modifies Directive 89/552/EC of the Council regarding the coordination of specific legislative, regulatory and administrative measures of member States concerning the exercise of television broadcasting activities.

Events subsequent to December 31, 2009

Telecom Italia Media share capital increase

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

a.

cancellation of the par value of ordinary and savings shares;

b.

a reverse share split of ordinary and savings shares in a ratio of one ordinary or savings share for every 10 ordinary or savings shares held;

c.

necessary amendment to the bylaws in order for the measures and the characteristics of the savings shares rights to remain unchanged following the resolution in a) and b) above;

d.

share capital increase for 240 million euros through the issue of ordinary shares to be offered on an optional basis to holders of ordinary and savings shares revoking the mandate at one time conferred by the shareholders meeting to the board of directors to increase share capital up to a maximum of 10 million euros giving mandate to the board to establish in the imminence of the rights offering, its other characteristics, including the subscription price, the maximum number of shares to be issued and the option ratio.

The option rights which are not exercised during the offering period ex art. 2441, paragraph 1 of the Italian Civil Code will be offered to the stock market ex art. 2441, paragraph 3 of the Italian Civil Code. As already announced, Telecom Italia, the controlling shareholder of Telecom Italia Media with a 69.2% direct and indirect equity investment, has pledged its support to the initiative by assuming an irrevocable commitment to subscribe to its portion of the capital increase, in addition to any residual portion that remains unassigned at the end of the offer on the stock market, ex art. 2441, paragraph 3 of the Italian Civil Code.

The capital increase is expected to take place after all the necessary authorizations and fulfillment requirements have been met and whenever the market conditions allow during the first half of 2010.

The capital increase is part of the 2010 2012 Business Plan approved by the Telecom Italia Media board of directors on February 25, 2010 and its aim is to reinforce the asset structure and support the development of the company in the extremely dynamic market in which it operates. In particular, the proceeds from the subscription to the shares will be fully assigned for the repayment of a part of the existing financing extended by Telecom Italia and Telecom Italia Finance.

Finally, In order to allow the above mentioned actions to be carried out, the extraordinary session of the shareholders meeting has approved some amendments to the bylaws (art. 5 Capital Measures and art. 6 Shares)

Renewal of Content Competence Center contract with Telecom Italia

The board of directors meeting on February 25, 2010 approved the renewal of the Content Competence Center agreement with Telecom Italia for the continuation and expansion of the activities conducted by Telecom Italia Media for the creation, program planning, research and purchase of Media Content for use by Telecom Italia s various television platforms (IPTV, CUBO, and WEB - formerly Yalp!). As part of the development strategies for broadband innovative services, Telecom Italia has recently launched the CuboVision device commonly known as Over the Top TV . This is a multimedia broadband device which allows home television viewing of Digital Terrestrial television channels as well as the most important Web TV stations, film requests using Pay-per-View and management of personal contents such as photos, videos and music.

In this scenario, Telecom Italia has asked Telecom Italia Media to expand the consulting activities that it already provides for the IPTV, Web and Mobile platforms renewing the above contract in advance and at the same time charging Telecom Italia Media with responsibility for assisting Telecom Italia in the creation and production of CuboVision content offerings. Telecom Italia Media s fee will be composed of fixed and variable amounts. These latter have been agreed on the basis of price parameters that take into account Telecom Italia s commercial objectives for the expansion of the IPTV and/or OTTV customer base and the revenues from the use of content on the platforms. To support the fairness of the agreed prices, the company asked for a valuation from a leading consulting firm which issued a favorable opinion. The forecast based on the estimates in Telecom Italia s Commercial Plan will grow and surpass the annual amount of 20 million euros in 2012.

Olivetti

The Business Unit

The Olivetti group mainly operates in the sectors of digital printing systems and ink-jet office products, in specialized applications for the banking field and commerce and in information systems managing forecast games, electronic voting and e-government. The group also develops and manufactures products using silicon technology (ink-jet print heads and Micro Electro-Mechanical Systems (MEMS) and industrial applications) and is also present with a dedicated structure in the field of documental services (digital management of company documents), caring services (specialist help-desk) and technical assistance. Starting from the second half of 2009, activities were undertaken to expand and diversify the offerings of the Information Technology sector by concentrating on the development of software solutions and applications services for businesses and public administrations and also qualifying devices.

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

The structure of the Business Unit

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

(*) Liquidated on January 28, 2010.

Main operating and financial data

Key results of the Business Unit for 2009 compared to 2008 are presented in the following table.

(millions of euros)	**2009**	**2008**	**Change**	
			amount	%
Revenues	350	352	(2)	

(0.6)

EBITDA

(14)

(30)

16

53.3

EBITDA margin

(4.0)

(8.5)

EBIT

(19)

(37)

18

48.6

EBIT margin

(5.4)

(10.5)

Capital expenditures

4

3

1

◦

Headcount at year-end (number)
1,098
1,194
(96)
(8.0)

71

Report on Operations 2009

The Business Unit of the Telecom Italia Group

Revenues

Revenues amount to 350 million euros, decreasing 2 million euros compared to 2008. Revenues held steady compared to 2008 in a year featuring a difficult economic environment. As far as the quarterly results are concerned, the fourth quarter of 2009 recorded revenues of 131 million euros (100 million euros in the fourth quarter of 2008 or +31%). This is a decisive turnaround compared to the contractions recorded in the three previous quarters (-8.3% in the third quarter of 2009 over the third quarter of 2008, -15.5% in the second quarter of 2009 over the second quarter of 2008 and -14.5% in the first quarter of 2009 over the first quarter of 2008).

As far as products are concerned, revenues in 2009 are in line with the prior year, but with a different mix: lower volumes for conventional products compensated by sales of new product lines (Data Cards, Net Books and Note Books) on Olivetti and Telecom Italia channels. The lower sales volumes of conventional products are linked to the negative economic scenario and the highest declines occurred in European markets, particularly in Spain and in Great Britain where the Pound sterling decreased significantly in value.

With regard to ink-jet products, the 32% reduction in revenues is due to lower sales of fax machines, multifunction printers and accessories.

Printers for banking counter applications, the segment in which Olivetti is the market leader, posted a decrease in volumes of 13% due to the contraction of Middle East markets, particularly Iran, the Emirates and Turkey where the crisis froze the investments of banks for the opening of new branches. The supply of counter printers to the Italian post office company, Poste Italiane S.p.A., continued in 2009 with volumes equivalent to those of the prior year.

The sales of fiscal cash registers in the Italian market recorded a considerable decline in volumes compared to 2008. That year had benefitted from the order to replace installed machines owing to the so-called seven-year period , that is, the average period over which the fiscal memory inserted in the products becomes depleted.

On foreign markets, the sales of fiscal cash registers benefitted from the law that came into effect for tax collection in Sweden, where revenues totaled about 6 million euros.

In 2009 as compared to 2008, professional office products, copiers and relative accessories posted a sharp reduction in terms of sales volumes in the black and white copier segment (-23%) and in the color copier segment (-10%), with an average price reduction of 9% on black and white machines and 5% on color machines. Nevertheless, it should be noted that in this segment the major competitors recorded drops that went as low as 30% compared to the prior year.

In 2009, installations began, to date more than 4,500, on an important project in cooperation with Telecom Italia S.p.A., for the supply of specialized terminals for payments/services for authorized tobacconists in Italy.

Since the end of June, Olivetti s product catalog has been enhanced with the start of the Supply Chain activity. This activity centers on the supply of Data Cards, Net Books and Note Books to Telecom Italia S.p.A. and the foreign market. In 2009, revenues from the Parent were 24 million euros.

EBITDA

EBITDA is a negative 14 million euros, a decisive improvement (+16 million euros) compared to the prior year thanks to the significant reduction in fixed costs owing to the effects of the reorganization that occurred. Considering also the impact of exchange rate fluctuations on sales in foreign currency to customers outside the EU and on purchases of merchandise and products in foreign currencies, the change in the U.S. dollar rate against the euro adversely affected EBITDA by 3 million euros. If the foreign exchange effect is not considered, the comparison with 2008 would be an improvement of another 3 million euros.

(millions of euros)	2009	2008	Change
HISTORICAL EBITDA	**(14)**	**(30)**	**16**
Mobility expenses under Law 223/91	-	*5*	*(5)*
COMPARABLE EBITDA	**(14)**	**(25)**	

11

72

Report on Operations 2009

The Business Unit of the Telecom Italia Group

EBIT

EBIT is a negative 19 million euros, an improvement of 18 million euros over the prior year.

(millions of euros)	2009	2008	Change
HISTORICAL EBIT	**(19)**	**(37)**	**18**
Non-organic expenses already described under EBITDA	*-*	*5*	*(5)*

	COMPARABLE EBIT
	(19)
	(32)
	13

Capital expenditures

Capital expenditures amount to 4 million euros, increasing 1 million euros compared to 2008.

Headcount

Headcount is 1,098 (1,005 in Italy and 93 foreign) at December 31, 2009, a decrease of 96 compared to December 31, 2008 (1,194, of whom 1,088 in Italy and 106 foreign).

Commercial developments

In July 2009, Olivetti presented the new Documental Hub offering which proposes a series of solutions and services for the digital management of corporate documents to the world of companies and the Public Administration. Available in the on demand mode through the Telecom Italia Data Centers, the offering not only makes it possible to dematerialize paper flows but also makes advanced services available such as the digital signature (also through cell phones), digital filing in accordance with law and electronic invoicing without the need of having one s own dedicated IT structure. At the end of 2009, some agreements were also sealed which allow the marketing of a special offering for the education sector through the RCS Scuola channel.

***

In October 2009, in Ivrea, Olivetti inaugurated the headquarters of Advalso, the company created to expand IT assistance and support services for Olivetti and Telecom Italia customers in the ICT and TLC sectors, and guarantee the highest level of quality. With this new center, alongside the center in Carsoli, Advalso is able to manage the entire customer assistance process, from the execution of standard help desk services to the most advanced technical support and back office services for all the Group s solutions, up to the development of solutions to support company business. With its 360-degree expertise in the IT sector, the new Advalso center is the benchmark services center for Olivetti s new Documental Hub offering for document management, a market in Italy estimated to be worth approximately 1.5 billion euros.

***

With a view to simplifying the corporate structure, in December 2009, Olivetti S.p.A. purchased the assets and liabilities of Olivetti International B.V. in liquidation, including the investment in Olivetti France S.A..

Events subsequent to December 31, 2009

During January 2010, Olivetti S.p.A. finalized the acquisitions of the investments in Olivetti UK Ltd, Olivetti Espana S.A. and Olivetti Deutschland GmbH which were previously held by Olivetti International B.V. in liquidation. The final closing of the liquidation of the latter company took place on January 28, 2010.

International Investments

BBNed Group

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

BBNed Group

(millions of euros)

2009

2008

Change

amount

%

Revenues

87

84

3

3.6

EBITDA

15

7

8

°

EBITDA margin

17.2

8.3

EBIT

(5)

(17)

12

70.6

EBIT margin

(5.7)

(20.2)

Capital expenditures

6

25

(19)

(76.0)

The key results in 2009 can be summarized as follows:

- revenues amount to 87 million euros, increasing 3 million euros compared to the prior year (+3.6%), thanks to a greater contribution of revenues from retail ADSL services. The customer portfolio, standing at about 161,000, is some 5,000 lower than at December 31, 2008, but approximately 1,000 higher than at September 30, 2009;

- EBITDA is 15 million euros, recording a significant increase of 8 million euros (+114.3%) compared to 2008 owing largely to better operating performance by the Alice business line (ADSL retail consumer package). The EBITDA margin is 17.2% compared to 8.3% for the prior year;

- EBIT is a negative 5 million euros, compared to a negative 17 million euros in 2008;

- capital expenditures total 6 million euros, decreasing 19 million euros compared to the prior year. The contraction can be attributed to capital expenditures in infrastructure (in 2008, significant network and information systems investments were made to expand the Alice package and fiber networks) and operating efficiency recoveries thanks to a rigid control over the return on investments;

- headcount is 347 at December 31, 2009, a reduction of 60 compared to December 31, 2008 and includes 13 people with temp work contracts (61 at December 31, 2008).

Commercial developments

During the year, the Dutch DSL market featured a steady recourse to promotions resulting in better although limited commercial penetration of the offering in the fiber sector.

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

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

.

technological evolution of network infrastructures and rationalization of IT systems;

.

improving the margins of rate plans;

.

customer loyalty and retention activities;

.

operating efficiency, rigid control over costs and the assessment of the return on investments.

Principal changes in the regulatory framework

During 2009, the Netherlands regulatory authority (OPTA) further increased its focus on the technological development of fiber. In this context, it has obliged the incumbent KPN to guarantee access in unbundling both to its own fiber network (including the city rings) and to the network of its joint venture with the Reggefiber group. In this way, the alternative operators are ensured access in unbundling to all the incumbent s fiber to the office (FTTO) network directed towards business customers (currently about 30% of the Dutch small and medium businesses market is covered) and to the fiber to the home (FTTH) network of the KPN-Reggefiber group joint venture.

Competition

About 6 million broadband lines were recorded in the Dutch market at the end of 2009, with penetration of broadband services among the highest in the world (about 80%) and penetration via cable among the greatest in Europe (about 40%).

The competitive environment is characterized by a significant degree of consolidation occurring over the course of past years in both the DSL market, as a result of the aggressive M&A strategy by KPN, and in the cable market, owing to the merger of the two leading market players.

The technological evolution is driven by the strategies for the development of fiber networks in the technological plan of the incumbent KPN and carried out directly or in joint venture with Reggefiber (principal alternative provider of fiber accesses). Such plan calls for the development of fiber networks using FTTHome and FTTCurb technology and during 2009 resulted in a selective coverage of the territory in some cities of the country.

Other Investments Accounted for Using the Equity Method

Telecom Argentina Group

Held by: Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora 13.97%

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

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

As regards Broadband, accesses total approximately 1,214,000, growing some 18% compared to the end of 2008 (1,032,000).

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

ETECSA

Held by: Telecom Italia International 27%

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

In the mobile telephony business, the customer base has surpassed 621,100 at December 31, 2009, with an increase of more than 87% compared to December 31, 2008 (331,700). The number of customers with prepaid contracts constitutes almost 95% of the client base and is equal to 589,600 (303,600 at December 31, 2008). The performance for the year still benefits from the considerable reductions in activation charges which took place on December 11, 2008 and on May 18, 2009.

Discontinued Operations/Non-Current Assets Held for Sale

The following is a reconciliation of the Profit (loss) from Discontinued operations/Non-current assets held for sale, with an indication of the principal economic and financial data of **HanseNet**, operating in Broadband activities in Germany.

(millions of euros)

	2009	**2008**	**Change**	
			amount	%

Economic impacts of HanseNet:	
Revenues	
	1,161
	1,190
	(29)
	(2.4)
EBITDA	
	265
	238
	27
	11.3
EBITDA margin	
	22.8
	20.0
EBIT	

(6)

8

(14)

EBIT margin

(0.5)

0.7

Financial income (expenses)

(24)

(33)

9

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

(30)

(25)

(5)

Income tax expense

7

36

(29)

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

(A)

(23)

11

(34)

Other economic impacts:

Impairment loss on goodwill attributed to HanseNet and expenses incidental to the sale	
	(597)
	(21)
	(576)
Net impact related to Liberty Surf	
	-
	(28)
	28
Expenses connected with sales in prior years	
	(2)
	(1)
	(1)

(B)
(599)
(50)
(549)

Profit (loss) from Discontinued operations/Non-current assets held for sale
(A+B)
(622)
(39)
(583)

Comment on the principal operating data of HanseNet - Broadband activities in Germany:

Revenues

Revenues relating to business conducted in Germany amount to 1,161 million euros, decreasing 2.4% compared to 2008 (-29 million euros). The reduction is largely due to the minor contribution to revenues by AOL clients (broadband resale and narrowband) and wholesale customers on the platform of the incumbent, Deutsche Telekom (DT). Such decrease was only compensated in part by the mobile service and higher revenues from unbundled accesses. The broadband customer portfolio in Germany at December 31, 2009 is about 2.3 million accesses, a figure basically in line with that at December 31, 2008.

EBITDA

EBITDA is 265 million euros, increasing 27 million euros (+11.3%) compared to 2008. The EBITDA margin is 22.8% against 20.0% in 2008.

As far as costs are concerned, the following is noted in particular:

.

acquisition of goods and services totals 778 million euros, decreasing 6.6% compared to 2008 (-55 million euros). The reduction is principally due to the lower impact of advertising and promotion expenses, commercial costs (thanks also to the acquisition of new customers with 2-year minimum contracts, the costs of which: 37 million euros in 2009 and 7 million euros in 2008 are capitalized) and outsourced customer care costs, whereas interconnection costs with other operators increased in connection with the growth of unbundled Alice customers;

.

employee benefits expenses amount to 99 million euros, decreasing 8 million euros compared to 2008 (-7.5%) thanks to the reduction in the average headcount (from 2,520 in 2008 to 2,168 in the 2009);

.

other operating expenses amount to 46 million euros, decreasing 11 million euros compared to 2008 largely on account of lower expenses connected with credit management.

EBIT

EBIT is a negative 6 million euros compared to a positive 8 million euros in 2008. The EBIT margin is -0.5% against 0.7% in 2008.

The decline in EBIT is basically due to higher amortization and depreciation charges (+41 million euros) on account of both the capitalization of costs incurred for the acquisition of customers with 2-year minimum contracts and significant investments in network infrastructures and information support systems made during 2008.

Capital expenditures

Capital expenditures amount to 229 million euros, decreasing 98 million euros compared to 2008 thanks to the contraction of network infrastructure investments and costs capitalized for the activation of new customers on the access platforms of other operators and despite the negative impact of the above mentioned higher capitalization of costs for the acquisition of new customers with 2-year minimum contracts.

Headcount

Headcount is 2,205 at December 31, 2009, decreasing 300 compared to December 31, 2008 and includes 233 people with temp work contracts (293 at December 31, 2008).

Commercial developments

The growth of the German Broadband market slowed down considerably starting from the fourth quarter of 2008. This was confirmed in the first nine months of 2009 by the net increase of approximately 500,000 broadband lines per quarter, and estimated for consolidation purposes also for the fourth quarter of 2009. The market context remains open to fierce competition from cable operators, from the commercial relaunch by the German incumbent Deutsche Telekom (DT) and from the aggressive pricing and promotions of the main alternative operators (specifically Vodafone and United Internet).

Considering the competitive scenario, HanseNet successfully pursued a new strategy from the start of the year based on three key points:

sales&marketing approach focusing on the acquisition of higher-value customers;

particular emphasis on end-to-end management of the acquired customer base;

rigorous financial discipline.

The new commercial approach led to an increase in the acquisition of more profitable customers (in the areas where HanseNet has its network) through less costly commercial channels (web and call centers) and with a growing importance of the new 2-year minimum contracts. The commercial focus described has not however led to significant reductions in the total volumes of orders acquired.

Better end-to-end management of the customer base made it possible to considerably reduce the churn rate (which in the fourth quarter of 2009 reached the lowest level of the last two years).

Starting from October, DT s IP-BSA offering is available to alternative operators for the access to the VDSL network of the incumbent through wholesale bitstream. HanseNet and DT negotiated the contract for the VDSL-Bitstream offering which HanseNet however intends to sign only after technical incompatibility problems are resolved that were noted during the first tests between the DT network and the HanseNet product requirements.

Principal changes in the regulatory framework

The main changes to the German regulatory framework relate to the introduction in the first half of 2009 of the obligation for the incumbent Deutsche Telekom (DT) to provide IP access to its competitors as well as PSTN

The Business Unit of the Telecom Italia Group

access and to provide unbundled resale access. The regulator also slightly reduced the monthly LLU rental, clearly in contrast with DT s request for a substantial increase.

In September, HanseNet applied to the German telecommunications authority (BnetzA) for access to DT s street cabinets, ducts and dark fiber in order to be able to develop its own VDSL network (FTTCurb); in December, BnetzA indicated February 2010 as the latest date for a response to HanseNet. Also in December, BnetzA guaranteed Vodafone access to the same DT infrastructure for the same purpose. The economic conditions for the service will be established, separately, by the end of April 2010.

In November, the administrative court asked BnetzA to carry out a revision of unbundling LLU access rates taking into account historic costs in addition to replacement costs.

Events subsequent to December 31, 2009

On February 16, 2010, the Telecom Italia Group finalized the sale to Telefónica, through the subsidiary Telefonica Deutschland GmbH, of its entire investment held in HanseNet Telekommunikation GmbH, an operator focused on the retail market of broadband services in Germany.

The estimated economic impact of the sale, based on an enterprise value of 900 million euros, was recorded in full in the consolidated financial statements at December 31, 2009

Specifically, the transaction resulted in a negative impact on the consolidated net result for 597 million euros including the goodwill impairment loss on the company for 558 million euros, and also transaction costs and accruals to provisions.

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

(millions of euros)	**2009** **(a)**	**2008** **(b)**	**Change** **(a-b)** amount	%	% organic
Revenues	**20,474**	**21,984**			

	(1,510)			(6.9)	(6.9)
EBITDA	**9,508**	**9,538**	(30)	(0.3)	(1.7)
EBITDA margin	*46.4%*	*43.4%*	*3.0 pp*		
Organic % EBITDA margin	*47.3%*	*44.8%*	*2.5 pp*		
EBIT	**5,161**	**5,128**	33		

			0.6	(0.8)
EBIT margin	*25.2%*	*23.3%*	*1.9 pp*	
Organic % EBIT margin	*26.3%*	*24.6%*	*1.7 pp*	
PROFIT BEFORE TAX	**2,456**	**2,135**	321	15.0
PROFIT FOR THE YEAR	**1,399**	**1,473**	(74)	

(5.0)

CAPITAL EXPENDITURES

3,406

3,471

(65)

(1.9)

NET FINANCIAL DEBT

39,695

39,916

(221)

(0.6)

HEADCOUNT AT YEAR END

54,236

57,285

(3.049)

(5.3)

Operating performance

The Parent, **Telecom Italia S.p.A.,** reports a profit of 1,399 million euros in 2009, with a decrease of 74 million euros compared to 2008. The following chart summarizes the main items which had an impact on the change in profit:

Revenues

Revenues amount to 20,474 million euros, decreasing 1,510 million euros (-6.9%) compared to 2008; the organic change in revenues is -6.9% and is calculated by excluding the reduction of 17 million euros recorded to take into account the settlement of some rate disputes with other operators and the portion of the AGCOM resolution regarding the review, with retroactive effect, of the method for determining the price of bitstream services.

The trend in revenues shows the following changes in the various commercial segments:

.

a contraction in revenues in the Consumer segment (10,953 million euros in 2009, decreasing 9.8% compared to 2008), referring to both services (-754 million euros or -6.7%) and product sales (-454 million euros or -49.1%). The reduction in revenues from services is largely attributable to performance in Fixed voice (-201 million euros or -11.8%) and outgoing Mobile voice (-306 million euros or -8.2%) owing to a decline in the customer base. The overall change in revenues, besides a decrease in traditional revenues from value-added services and content, is also negatively affected by the revision of regulated interconnection rates (particularly as regards Mobile termination revenues). Such changes in the traditional business areas were only partly compensated by the growth of the customers base and revenues from Broadband services;

.

a reduction in revenues in the Business segment (3,730 million euros in 2009, decreasing 9.7% compared to 2008) attributable mainly to the generally unfavorable economic picture, consequently impacting usage. In addition to this, there was a contraction in the customer base although less marked than in the prior year in the Fixed area, more significant in the Mobile area. Nevertheless, in this context, certain positive tendencies were noted such as the stability of Fixed Broadband revenues (422 million euros), the growth of Fixed Data Services and the increase of Mobile Browsing revenues (155 million euros in 2009, increasing 17.4%);

.

a limited fall in revenues in the Top segment (3,674 million euros in 2009, decreasing 3.5% compared to 2008), principally in connection with the ongoing contraction in the telephony and data area partly associated with the economic situation and the resulting decline in usage by companies; this change is compensated in part by the continuous, strong growth of the ICT solutions and offerings area (+106 million euros or +15.3%) and the improvement in the mobile area;

.

a significant increase in revenues in National Wholesale segment (+258 million euros in 2009 or +14.8%), generated by the growth of the customer base of the OLOs regarding Local Loop Unbundling, Wholesale Line Rental and Bitstream services.

EBITDA

EBITDA is 9,508 million euros, decreasing 30 million euros (-0.3%) over 2008. The organic change in EBITDA is a negative 1.7% (-170 million euros). The EBITDA margin is 46.4% (43.4% in 2008); at the organic level, the EBITDA margin is 47.3% in 2009 (44.8% in 2008).

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

(millions of euros)	**2009**	**2008**	**Change**
Expenses for mobility agreements under Law 223/91	-	283	(283)
Disputes and settlements	154	33	121

Other expenses, net	25	3	22
Total non-organic (income) expenses	**179**	**319**	**(140)**

More specifically, besides the negative effects described under the comments on revenues, the following line items analyzed below affected EBITDA performance in 2009:

Acquisition of goods and services

Acquisition of goods and services amounts to 7,746 million euros, decreasing 1,263 million euros (-14.0%) compared to 2008 (9,009 million euros). The reduction is largely the result of a contraction in the costs for the portion of revenues to be paid to other operators, partly due to the reduction in fixed-mobile voice call termination rates on the networks of other operators, in addition to lower purchases of raw materials and commercial expenses specifically in relation to the acquisition of customers. This latter reduction is associated with the strategy of focusing commercial efforts on higher-value customers.

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
Purchases of goods	1,393	2,013	(620)
Portion of revenues to paid to other operators and interconnection costs	2,379	2,832	(453)

Commercial and advertising costs	1,152	1,292	(140)
Consulting and professional services	173	230	(57)
Power, maintenance and outsourced services	1,018	1,011	7
Rent and leases	875	860	15
Other service expenses	756	771	(15)
Total acquisition of goods and			

services	**7,746**	**9,009**	**(1,263)**

As a percentage of revenues, the acquisition of goods and services is 37.8% (41% in 2008).

Employee benefits expenses

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
Ordinary expenses of employees	3,120	3,165	(45)
Expenses for mobility under Law			

223/91	-	283	(283)
Total employee benefits expenses	**3,120**	**3,448**	**(328)**

The reduction in the ordinary expenses of employees is due to the contraction of the average salaried workforce (-2,825 compared to 2008) and is mainly offset by the effect of the increase in minimum salaries established by the TLC collective national labor contract since June 2008 and the impact of the renewal of the collective national labor contract on October 23, 2009.

In 2008, an amount of 283 million euros had been recorded for the start of mobility under Law 223/91.

In 2009, the average salaried workforce, including those with temp contracts, was 54,558 (57,383 in 2008). Headcount at December 31, 2009 is 54,236 with a reduction of 3,049 compared to December 31, 2008.

Other operating expenses

Details are as follow:

(millions of euros)	**2009**	**2008**	**Change**

Writedowns and expenses in connection with credit management	396	398	(2)
Accruals to provisions	135	27	108
Telecommunications operating fee	49	49	-
Indirect duties and taxes	81	95	(14)
Penalties, settlement compensation and administrative sanctions	72	64	8

Association dues and fees, donations, scholarships and traineeships	24	24	-
Sundry expenses	50	24	26
Total	**807**	**681**	**126**

The increase is due primarily to higher accruals to provisions (+108 million euros) to cover risks on disputes in progress.

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

Depreciation and amortization charges are 4,303 million euros (4,426 million euros in 2008), decreasing 123 million euros and referring to intangible assets for 62 million euros and tangible assets for 61 million euros.

The reduction in depreciation and amortization is largely on account of the decrease in amortizable assets owing in part to the reduction of capital expenditures in the last few years.

Losses on the disposal of non-current assets increased 44 million euros. Specifically, in 2009, the company proceeded to dispose of the credit management platform for fixed consumer clientele since it is no longer considered usable in light of the new organization structure and the continuation of the fixed-mobile convergence process. Net of the utilization of the provision for writedowns for 1.5 million euros, the effect of the losses was 39 million euros.

EBIT

EBIT is 5,161 million euros, increasing 33 million euros (+0.6%) compared to 2008. The organic change in EBIT was a negative 0.8% (-43 million euros). The EBIT margin is 25.2% (23.3% in 2008); at the organic level, the EBIT margin is 26.3% in 2009 (24.6% in 2008).

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

(millions of euros)	**2009**	**2008**	**Change**

Non-organic expenses already described under EBITDA	179	319	(140)
Losses on disposals of non-current assets	39	-	39
Non-recurring gains from the sale of buildings	-	(25)	25
Total Non-organic (revenues and income) / costs and expenses	**218**	**294**	**(76)**

Other income (expenses) from investments

Details are as follows:

(millions of euros)	**2009**	**2008**	**Change**
Dividends	166	129	37
Other income and gains on disposals of investments	4	3	1
Losses on disposals of investments			

	-	(480)	480
Impairment losses on financial assets	(537)	(243)	(294)
Total	**(367)**	**(591)**	**224**

Specifically:

- the year 2008 had included, inter alia, the losses on the disposal of investments referring to the sale of Liberty Surf Group S.A.S. to Iliad S.A. (480 million euros);

- dividends mainly refer to Telecom Italia Sparkle (150 million euros) and Matrix (10 million euros);

- gains on disposals of investments mainly refer to the sale in March of the holding in Luna Rossa Challenge 2007;

- impairment losses are mainly in respect of the writedowns of the investments in Telecom Italia Deutschland Holding (497 million euros) following the transaction for the disposal of HanseNet, in Olivetti (13 million euros), in Tiglio I (9 million euros), in New Satellite Radio (7 million euros), in Tiglio II (5 million euros) and in Aree Urbane (2 million euros).

Finance income (expenses)

Details are as follows:

(millions of euros)	2009	2008	Change
Income on bond buybacks	3	58	(55)
Early closing of cash flow derivatives	20	19	1

Net finance expenses, fair value adjustments of derivatives and other items	(2,361)	(2,479)	118
Total	**(2,338)**	**(2,402)**	**64**

In particular, the improvement of 118 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 1,057 million euros, increasing 395 million euros compared to 2008.

In particular, the year 2008 had benefited from the positive effect of 509 million euros due to the tax realignment of off-book deductions pursuant to Law 244 dated December 24, 2007.

Net of this effect, income taxes post a reduction of 114 million euros in 2009 compared to the prior year described as follows:

.

2009 tax benefits (143 million euros) mainly on account of filing the application for the reimbursement of prior years Ires taxes corresponding to 10% of deductible Irap taxes, pursuant to Legislative Decree 185 dated November 29, 2008, art. 6, as well as lower taxes of the prior year;

.

higher 2009 income taxes (29 million euros) due to a higher tax base and other changes.

Financial position performance

Financial position structure

(millions of euros)

12/31/2009

12/31/2008

Change

Restated

(a)

(b)

(a-b)

ASSETS

Non-current assets

68,751

70,202

(1,451)

Current assets

13,881

10,688

3,193

Discontinued assets/Non-current assets held for sale

-

9

(9)

82,632

80,899

1,733

EQUITY AND LIABILITIES

Equity

23,068

22,868

200

Non-current liabilities

41,087

39,732

1,355

Current liabilities

18,477

18,299

178

82,632

80,899

1,733

Net financial debt and financial flows

Net financial debt

Net financial debt is 39,695 million euros, decreasing 221 million euros compared to 39,916 million euros at the end of 2008.

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 composition is the following:

Net financial debt

(millions of euros)

12/31/2009

12/31/2008

Change

Restated

(a)

(b)

(a-b)

NON-CURRENT FINANCIAL LIABILITIES

Bonds

17,286

15,683

1,603

Amounts due to banks, other financial payables and liabilities

19,909

19,462

447

Finance lease liabilities

1,545

1,662

(117)

38,740

36,807

1,933

CURRENT FINANCIAL LIABILITIES

Bonds

1,985

608

1,377

Amounts due to banks, other financial payables and liabilities

7,084

6,693

391

Finance lease liabilities

236

252

(16)

9,305

7,553

1,752

GROSS FINANCIAL DEBT

48,045

44,360

3,685

NON-CURRENT FINANCIAL ASSETS

Financial receivables and other non-current financial assets

568

640

(72)

568

640

(72)

CURRENT FINANCIAL ASSETS

Securities other than investments

1,321

-

1,321

Financial receivables and other current

financial assets

2,225

241

1,984

Cash and cash equivalents

4,236

3,563

673

7,782

3,804

3,978

FINANCIAL ASSETS

8,350

4,444

3,906

NET FINANCIAL DEBT CARRYING AMOUNT

39,695

39,916

(221)

Reversal of fair value measurement of derivatives and

related financial assets/liabilities

(910)

(687)

(223)

ADJUSTED NET FINANCIAL DEBT

38,785

39,229

(444)

Detailed as follows:

TOTAL ADJUSTED GROSS FINANCIAL DEBT

46,287

43,556

2,731

TOTAL ADJUSTED FINANCIAL ASSETS

(7,502)

(4,327)

(3,175)

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

Bonds

1,985

608

1,377

Amounts due to banks, other financial payables and liabilities

2,947

5,298

(2,351)

Finance lease liabilities

236

252

(16)

The non-current portion of gross financial debt is 38,740 million euros (36,807 million euros at the end of 2008) and represents 81% 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. Additional 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 2009:

Net operating free cash flow

(millions of euros)	**2009**	**2008**	**Change**
EBITDA	9,508	9,538	(30)
Capital expenditures on an accrual basis			

(3,406)

(3,471)

65

Change in net operating working capital:

(209)

(462)

253

Change in inventories

(52)

(17)

(35)

Change in trade receivables and net amounts due on construction contracts

402

315

87

Change in trade payables (*)

(564)

(706)

142

Other changes in operating receivables/payables

5

(54)

59

Change in provisions for employees benefits

(160)

227

(387)

Change in operating provisions and Other changes

57

(235)

292

Net operating free cash flow

5,790

5,597

193

% of Revenues

28.3

25.5

2.8 pp

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

The improvement in net operating free cash flow compared to 2008 (+193 million euros) is largely the result of lower capital expenditure requirements and higher net operating working capital, the effects of which are partly offset by the change in operating provisions.

The following also had an impact on the trend of net financial debt during 2009:

Capital expenditures flow

Capital investments refer to intangible assets (1,525 million euros) and tangible assets (1,881 million euros).

Disposal of investments and other divestitures flow

Disposal of investments and other divestitures flow amounts to 51 million euros and mainly refers to the disposal of investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark (for cash receipts of 13 million euros) and also the disposal of other tangible and intangible assets. In particular, tangible asset disposals included the cancellation of a contract for the purchase of an aircraft which involved the manufacturer s restitution of the advances that had been paid by Telecom Italia (about 21 million euros).

Financial investments and treasury shares buyback flow

Financial investments and treasury shares buyback flow amounts to 67 million euros including 50 million euros for the payment made to TI Capital to replenish its share capital and partly cover losses.

The treasury shares buybacks refer to the purchase, for 11 million euros, of a total of 11.4 million Telecom Italia ordinary shares to service the incentive plan for executive management denominated TOP Plan 2008. The average price per share was 0.92959 (including agent commissions).

Moreover, in July 2009, the Parent, Telecom Italia, purchased on the market 39,500 Telecom Italia Media savings shares to add to the 221,000 Telecom Italia Media savings shares already held. Such purchases required a total disbursement of 4,470 euros, corresponding to the average cost of 0.11317 euros per share (including agent commissions).

The purchases of Telecom Italia and Telecom Italia Media shares were carried out through the financial agent Mediobanca which operated with a mandate for the purchase of the shares on behalf of the Company in complete autonomy and independently of Telecom Italia and in accordance with the Regulation of the markets organized and operated by Borsa Italiana S.p.A. and the relative instructions.

Dividends flow

Dividends paid amount to 1,034 million euros. Dividends collected from Group companies total 166 million euros and particularly include the dividends collected from Telecom Italia Sparkle (150 million euros) and Matrix (10 million euros).

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

Finance expenses, taxes and other net non-operating requirements flow mainly includes the payment, made during 2009, of taxes (for 2,272 million euros, which comprise 248 million euros for tax disputes which had already been provided for in the financial statements of prior years), net finance expenses and, to a lesser extent, the change in non-operating receivables and payables.

***

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 2009 resulted in a positive effect on net financial debt at December 31, 2009 of 1,010 million euros (779 million euros at December 31, 2008).

Bonds

Bonds at December 31, 2009 are recorded for 19,271 million euros (16,291 million euros at December 31, 2008). Their nominal repayment amount is 18,696 million euros, increasing 2,814 million euros compared to December 31, 2008 (15,882 million euros).

The change in bonds during 2009 is as follows:

Report on Operations 2009

Telecom Italia S.p.A.

(millions of original currency)

currency

amount

NEW ISSUES

Issue date

Telecom Italia S.p.A. 500 million euros, 7.875% maturing 1/22/2014

Euro

500

1/22/2009

Telecom Italia S.p.A. 650 million euros, 6.75% maturing 3/21/2013

Euro

650

3/19/2009

Telecom Italia S.p.A. 850 million euros, 8.25% maturing 3/21/2016

Euro

850

3/19/2009

Telecom Italia S.p.A. 750 million pounds sterling, 7.375% maturing 12/15/2017

GBP

750

5/26/2009

REPAYMENTS

Repayment date

Telecom Italia S.p.A. Floating Rate Notes Euribor 3 months

+ 0.60%

Euro

110

3/30/2009

BUYBACKS

Buyback period

Telecom Italia S.p.A. 796 million euros Floating Rate Notes maturing June 2010

Euro

53.75

April May

NOTE

Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group: 348 million euros (nominal amount) as of December 31, 2009, the same as of December 31, 2008.

Maturities of financial liabilities

The average maturity of non-current financial liabilities 6.66 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 separate financial statements of Telecom Italia S.p.A. at December 31, 2009.

Current financial assets

Financial assets total 8,350 million euros (4,444 million euros at December 31, 2008) of which 1,410 million euros refers to financial receivables form Group companies.

Moreover, 7,782 million euros (3,804 million euros at December 31, 2008) are classified as current financial assets. This level of current assets, together with unused committed credit lines of 6.5 billion euros, allows the Group to amply meet its repayment obligations.

EQUITY

Equity is 23,068 million euros, increasing 200 million euros compared to December 31, 2008 (22,868 million euros). The changes in equity during 2009 and 2008 are reported in the following table:

(millions of euros)

2009	**2008**

At the beginning of the year

22,868

23,610

Bond conversions, equity instruments granted and purchase of treasury shares

(7)

(26)

Profit for the year

1,399

1,473

Dividends declared

(1,035)

(1,618)

Movements in the reserve for available for sale financial assets *and cash flow hedges*

(157)

(571)

At the end of the year

23,068

22,868

Financial Statements Telecom Italia S.p.A.

Separate Income Statements

Separate Statements of Comprehensive Income

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

Separate Statements of Financial Position

Report on Operations 2009

Telecom Italia S.p.A.

Separate Statements of Cash Flows

Additional Cash Flow Information

Reconciliation of Consolidated Equity

(millions of euros)	Profit for the year 2009	Profit for the year 2008	Equity at 12/31 2009	Equity at 12/31 2008
Equity and Profit for the year of Telecom Italia S.p.A.	**1,399**	**1,473**	**23,068**	**22,868**

Equity and profit for the year of consolidated companies net of the share attributable of Non-controlling interests

(170)

(134)

18,790

17,894

Carrying amounts of consolidated investments

(30,736)

(30,353)

Consolidation adjustments:

-

elimination of goodwill recognized in Parent financial statements

(40,013)

(40,013)

-

recognition of positive differences arising from purchase of investments

43,501

43,817

-

effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance

(468)

(468)

-

valuation of investments using the equity method, net of dividends

66

55

101

102

-

intragroup dividends

(229)

(236)

-

losses and impairment losses on consolidated companies included in the results of parent companies

528

415

11,064

11,072

-

losses (gains) on disposals of investments

(2)

636

(23)

(22)

-

elimination of internal profits included in tangible and intangible assets

10

10

(10)

(20)

-

change in ownership percentage of consolidated companies during the year

(5)

(2)

-

derivatives

8

(5)

221

701

-

other adjustments

(29)

(37)

462

22

Equity and Profit for the year attributable to owners of the Parent

1,581

2,177

25,952

25,598

Equity and Profit attributable to Non-controlling interests
15
1
1,168
730

Equity and Profit for the year of the consolidated financial statements
1,596
2,178
27,120
26,328

94

Report on Operations 2009

Telecom Italia Group

Related Party Transactions

The information concerning related party transactions required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Note Related Party Transactions in the consolidated financial statements at December 31, 2009 of the Telecom Italia Group and in the separate financial statements of Telecom Italia at December 31, 2009.

Furthermore, a specific Group Steering Committee for Relations with Telefónica has been operational since the end of 2007. Its purpose, inter alia, 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 consequently been set up between the two during 2008 have identified numerous areas of interest regarding:

.

the achievement of synergies, strictly speaking, especially in the areas of procurement, IT, technology and research, in which the mutual 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 project, as announced in March 2008, estimates synergies of 1.3 billion euros achievable by the two groups in the three year period 2008-2010, 55% of which would refer to Telecom Italia. The cooperation will continue into the two years 2011-2012, with further synergies deriving mainly from the extension of the timeframe of the activities in progress.

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.

Telecom Italia Group

Sustainability

Introduction

For 13 years, Telecom Italia has been analyzing its own performance with regard to the stakeholders with whom it interacts daily: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders.

To demonstrate the importance that Telecom Italia places on sustainability, the information regarding the activities carried out with regard to the stakeholders has, since 2003, formed part of the Report on Operations, in confirmation of the Group s determination to integrate its financial and non-financial data.

References and Governance

In defining and implementing its own sustainability strategy and programs, Telecom Italia Group makes reference to the guidelines issued by the main global organizations of guidance and standardization on Corporate Responsibility.

In 2002, Telecom Italia endorsed the principles of the Global Compact, the main point of reference at the global level, launched in 2000 by the UN to promote the protection of the environment, respect for human rights, working standards, and anti-corruption practices.

The System of Sustainability Management also takes into account the principal reference regulations and international standards:

.

the Directives, Recommendations and Communications of the European Commission;

.

the OCSE guidelines directed at multinational enterprises;

.

the ISO 9000 and ISO 14000 certificates governing Quality and Environmental Management Systems;

.

the principles of the Conventions of the International Labor Organization (ILO) 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;

.

the AA1000 AccountAbility Principles Standard (APS 2008), drawn up by AccountAbility (a non-profit international partnership in the field of defining standards and guidelines); the document sets the principles that a company must respect in order to define itself accountable .

Sustainability issues are subject to the supervision of the Committee for Internal Control and Corporate Governance, which carries out ex-post checks on sustainability activities in general, including projects conducted by the Telecom Italia Foundation, to ensure they are consistent with the Group s ethical values.

Reporting

The performance analysis and the related reporting are based on a multi-stakeholder approach, and on around 200 KPI (Key Performance Indicators), defined on the basis of the Global Reporting Initiative (GRI) guidelines, the demands of stakeholders and the questionnaires sent to the main rating agencies, with the aim of inclusion in the stock indexes of Sustainability.

With the integration of the sustainability data within the consolidated Telecom Italia Group Annual Report which has been carried out since the financial year 2003, the Group anticipated the application of European Directive 51/2003, adopted in Italy under the Legislative Decree dated February 2nd, 2007, number 32.

In drawing up the Sustainability Report, the principles of completeness, materiality and responsiveness defined by the AA1000 AccountAbility Principles Standard (APS), have been followed; all subsidiary companies included in the area of consolidation have been considered, unless stated otherwise (see § The Environment), excluding Discontinued operations/Non-current assets held for sale.

The methodology adopted to measure investments in the Community is that defined by the London Benchmarking Group LBG (see § The Community).

Planning

The Sustainability Plan is drawn up on the basis of a procedure broken down into four phases:

1.

identification of the areas for improvement in sustainability performance;

2.

comparison between the areas for improvement and the projects the Group plans to carry out for the purposes of its business;

3.

definition of targeted actions to be taken in the areas for improvement where no projects have been conducted previously, or those where the planned projects do not have sufficient, positive impact in terms of sustainability;

4.

monitoring those areas in need of supervision in order to maintain the performance level attained.

The identification of the improvement goals is based on:

.

commitments required by international organizations - such as the UN, ILO, OECD and regulatory bodies, taken in the Group s Code of Ethics and other charters and policies;

.

general issues assessed by analysts for the purpose of inclusion in the sustainability indexes;

.

stakeholders requests (conveyed through associations, the media, direct contacts, etc.);

.

benchmarking with other TLC operators.

Projects that require substantial investment, presented for approval by the appropriate Committee, are accompanied by an assessment schedule in which their impact, in terms of the sustainability of the investment, is stated: the project managers indicate whether the projects for which they are seeking approval have a positive, negative or neutral impact on certain key areas identified for each stakeholder. These reports are taken into account within the decision-making process that leads to the approval of investments, and they provide a useful summary for assessing the overall impact of the Group s investment choices in terms of sustainability.

Placings in the indexes

The indexes of sustainability are stock indexes in which shares 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 specialized rating agencies that assess companies on the basis of publicly available information and questionnaires, taking account of opinions expressed by the media and stakeholders. The selection process is extremely rigorous and only companies deemed worthy are given a place in the indexes.

Telecom Italia has been confirmed in both categories in the Dow Jones indexes of sustainability:

.

Dow Jones Sustainability World Index (DJSI World), which includes 317 leading companies in sustainability at the global level;

.

Dow Jones STOXX Sustainability Indexes (DJSI STOXX): the Europe index, made up of 154 leading companies in sustainability at the European level; the Euro index, made up of 84 listings in the Euro area.

On the basis of the assessments carried out for admission to the DJSI in 2009, Telecom Italia has been included in the prestigious Gold Class in the fixed telecommunications sector of the Sustainability Yearbook 2010 , published by the SAM Group (Sustainable Asset Management), which administers the DJSI, and PricewaterhouseCoopers.

Telecom Italia has been included in all the important indexes of the Financial Times Stock Exchange for Good (FTSE4Good):

.

FTSE4Good Global (653 companies);

.

FTSE4Good Europe (264 companies);

.

FTSE4Good Environmental Leaders Europe, which include 40 listings selected from the FTSE4Good Europe on the basis of results achieved in matters of environmental protection.

Telecom Italia is also included in the following indexes:

.

Advanced Sustainable Performance Index (ASPI) Eurozone, made up of 100(1) companies;

.

Ethibel Sustainability Indexes (ESI):

–

Excellence Europe, comprising 198 listings;

–

Excellence Global, comprising 134 listings;

.

KLD Sustainability Indexes:

–

FTSE KLD Global (GSIN), comprising 630 listings;

–

FTSE KLD Europe (EUSI), comprising 209 listings;

(1) To which may be added 20 in the buffer zone, that is listings not included directly in the index but which may find places should any of the 100 companies be excluded during the review processes held during the year.

–

FTSE KLD Global ex US Index (GSIXU), comprising 452 listings;

–

FTSE KLD Europe Asia Pacific (EAPSI), comprising 401 listings.

.

E.Capital Partners Indexes (ECPI):

–

Ethical Index Global, comprising 300 listings;

–

Ethical Index Euro, comprising 150 listings;

–

Ethical Index EMU, comprising 150 listings.

.

Axia

–

Ethical, comprising 40 listings;

–

Euro Ethical, comprising 40 listings;

–

CSR, comprising 30 listings.

Tim Participações has been included in the ISE index (Índice de Sustentabilidade Empresarial), managed by Bovespa (the San Paolo stock exchange) together with the Brazilian Environment Ministry, UNEP and other financial and sustainability bodies. The index is composed of the listings of 34 companies that have obtained the highest scores in terms of sustainability, selected on the basis of a questionnaire submitted to the 137 most traded companies of the Bovespa.

Other acknowledgements

Telecom Italia was again judged by the Carbon Disclosure Project (CDP) to be the best Italian company in the Global 500 index in the exposition of data regarding climate change also in the 2009 edition (following that in 2008). The CDP is an international initiative, now in its seventh year, which provides guidelines on how to measure and represent greenhouse gas emissions.

Avoicomunicare, Telecom Italia s integrated communication project on the major social and environmental issues, won the Aretê 2009 award promoted by Pentapolis (Confindustria) on responsible communication, in the Internet category.

Telecom Italia was awarded the Family-Work 2009 Prize, devised and promoted by the Lombardy Region in collaboration with ALTIS (Alta Scuola Impresa e Società, Catholic University) for creating the best integrated system for family-work balance.

Telecom Italia is in second place in Italy in web communication on sustainability in the Lundquist classification.

By virtue of the experience gained through the co-leadership of the laboratory Sustainability and evaluation of the non-financial performance , started within the Alliance launched by the European Commission in March, 2006, Telecom Italia was the only Italian company called on by the Directorate-General for Enterprise and Industry of the European Commission to take part in the stable nucleus of stakeholders invited to the ESG (Environmental, Social, Governance) workshops. These are meetings aimed at discussing possible actions to improve the reporting and communication on sustainability issues which have involved businesses, investors, civil society, non-governmental organizations, consumer associations, the media, trade unions and institutions in the second half of 2009 and in the first months of 2010.

Economic value generated and distributed

The economic value generated and distributed to stakeholders[1] is shown below. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation. Data regarding the previous financial year have been recalculated for purposes of comparison.

(million euros)	2009	2008
Direct economic value generated		
a) Revenues and other income	27,445	29,336
b) Interest payable and dividends paid	104	345
c) Capital gains (capital losses) from disposals		

of non-current activities	(59)	35
d) Direct economic value generated (a+b+c)	**27,490**	**29,716**
Economic value distributed		
e) Operating costs	12,200	13,713
f) Employee costs	3,734	4,114
g) Shareholders and providers of capital	3,183	3,999
h) Taxes and duties	1,548	2,138

i) Economic value distributed (e+f+g+h)	**20,665**	**23,964**
Economic value retained (d-i)	**6,825**	**5,752**

(million euros)	**2009**	**2008**
Wages and salaries	2,570	2,597
Social security costs	942	944
Provisions for employees severance and retirement	54	

		71
Other expenses	168	502
Employee costs	**3,734**	**4,114**

(million euros)	**2009**	**2008**
Acquisition of external goods and services	11,480	13,120
Other operating costs(*)	1,220	1,212
Change in inventories	15	(113)

Internally generated assets	(515)	(506)
Operating costs	**12,200**	**13,713**

(*)

Mainly consists of write-downs and changes connected to the management of non-financial credits of 565 million euros (687 million euros in 2008) accruals for risks equal to 164 million euros (70 million euros in 2008), and contributions and fees for TLC activities of 318 million euros (315 million euros in 2008), net of Other taxes and duties of 396 million euros (419 million euros in 2008) included in the item Taxes and duties .

(million euros)	**2009**	**2008**
Dividends distributed	1,053	1,667
Interest payable	2,130	2,332

Shareholders and providers of capital
3,183
3,999

(1) The value distributed to the stakeholder, The Community, is not shown in the table but can be found in the relevant chapter.

(million euros)	**2009**	**2008**
Income taxes	1,152	1,719
Indirect taxes and duties	396	419
Taxes and duties	**1,548**	**2,138**
regarding Italian activities	1,232	1,781
regarding activities abroad	316	357

CUSTOMERS

Customer satisfaction

Telecom Italia listens to its customers through a system that encompasses both an overall assessment over time of all contacts with Telecom Italia, 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 a fault). The contributions gathered are used to improve the organizational processes with the aim of supplying a service that is ever more responsive to the needs expressed.

The Customer Satisfaction surveys carried out by the company are of two kinds:

.

the reflective survey is based on the overall perceptions of the customer and is not connected to a moment in time when contact was made for some specific reason. This method permits the analysis of the causal relationships that determine the customer s level of satisfaction. This survey, similar to the one used for the ACSI (American Customer Satisfaction Index), yields an indicator which is stable and has a predictive capacity, and that can be used to make comparisons between sectors and countries. This indicator furnishes important suggestions about the levers that can be employed to improve the levels of customer satisfaction. This type of survey has been extended to cover all categories of customers, consumer and business;

.

the reactive survey is conducted immediately after the specific event that is the object of the inquiry (a contact with the call centre). Those interviewed are asked to express, with the experience of the call still fresh in their mind, an overall assessment of the service received (overall satisfaction) and an assessment of the individual aspects of the experience (for example, the time of the wait to speak to an operator, courtesy and competence of the operator).

The data below refers to the last three months of the year and shows the overall CSI of Telecom Italia S.p.A.

Customer segment	**2009**	**2008**

Consumer	69.86	68.33
Business	63.42	60.63
Top Clients	70.30	70.74
Total	**68.60**	**67.19**

The data given in the table below refers to the 2009 progressive weighted average revealed by the reflective survey.

Customer segment	**Satisfaction with access service(*)**		**Satisfaction with billing (*) (1)**
	2009	**2008**	**2009**

2008

Fixed telephony

Consumer

8.18

7.98

7.27

7.14

Business

7.80

7.59

6.73

6.56

Customer segment

Satisfaction with network coverage (*)

Satisfaction with billing (*) (2)

	2009	**2008**	**2009**	**2008**
Mobile telephony				
Consumer	8.36	8.34	7.79	7.60
Business	8.15	8.10	6.83	6.97

(*)

Average satisfaction on a scale of 1-10 where 1 means completely unsatisfied and 10 completely satisfied .

(1) Ease of reading of the bill.

(2) Ease of reading of the bill for the business segment; accuracy of credit management/invoice for consumer segment.

The data given in the table below refers to the 2009 progressive weighted average revealed by the reactive survey.

	Customer satisfaction with Customer Care
	Customer segment
	Overall satisfaction (*)
	Courtesy and kindness of the operator (*)(**)
	Ability to understand and satisfy needs and requests(*)(**)
	2009
	2008
	2009

	2008
	2009
	2008
Fixed telephony	
Consumer[1]	
	7.19
	6.63
	8.47
	8.34
	8.01
	7.67
Business[2]	
	6.39
	6.09
	8.14
	8.13
	7.47

7.23

Mobile telephony

Consumer[3]

7.81

7.50

8.81

8.74

8.46

8.16

Business[4]

6.67

6.49

8.27

8.31

7.49

7.32

(*) Average satisfaction on a scale of 1-10, where 1 means completely unsatisfied and 10 means completely satisfied.

(**) Starting from January, 2009, in the survey questionnaire, the operator item Courtesy and kindness has replaced Courtesy and the operator item Ability to understand and satisfy requests has replaced Technical Competence of Operator.

(1)

Assistance given by the 187 (commercial) service for information, commercial and administrative requests, reminders and complaints (excluding calls regarding failures).

(2)

Assistance given by the 191 (commercial) service for information, commercial and administrative requests, reminders and complaints (excluding calls regarding failures).

(3)

Assistance supplied by the 119 Service for information, changes and complaints.

(4)

Assistance supplied by the Toll-free Business Number for information, changes and complaints.

Customer satisfaction in the management incentives scheme

Telecom Italia s short term management incentives scheme provides, among the targets for all those within the scheme, those linked to customer satisfaction, in line with the industrial plan for the period. These targets are measured through the Customer Satisfaction indices monitored through periodical reflective surveys. In addition, there are further targets on parameters of quality measured by reactive surveys for the front end area (caring, technological etc.).

Customer satisfaction in collective incentives systems

Telecom Italia s collective incentives systems also provide a target linked to customer satisfaction.

In particular, performance-related bonuses for all Telecom Italia resources not included in a system of individual incentives incorporate both a total customer satisfaction target, valid across the whole company, and specific targets for that part of the organizational structure responsible for customer satisfaction.

SUPPLIERS

General matters

The process of selection, assessment and control of Telecom Italia Group s suppliers is achieved, for high risk categories of commodities, through a pre-contractual phase of evaluation in which the economic/financial and technical/organizational characteristics are assessed. The positive evaluation of these characteristics allows inclusion in the Group s Register of Suppliers. All the Group s suppliers must make a commitment, on behalf of the company in question and any authorized sub-contractors, collaborators and employees, to observe the principles of ethics and conduct contained in the Group s Code of Ethics.

Registered companies which have received procurement orders are usually subject to controls throughout the course of supply, which range from Vendor Rating monitoring (the systematic assessment of the supply) to Incoming Quality control (mandatory for the purpose of the acceptance and use of the goods procured).

During 2008, a Vendor Rating Index was introduced, as an experiment, which takes social and environmental parameters into consideration in the evaluation of the supplier.

Main sustainability initiatives

The following initiatives were undertaken during 2009:

.

the application of the Guidelines for the assessment of the life cycle of products (issued in 2007) has continued with regard to 23 products which allows the evaluation of how far the commodities procured, managed and marketed by the Group meet the requirements laid down by the key environmental regulations and are designed, made, used and decommissioned in such a way as to facilitate the entire life cycle from the environmental and economic points of view;

.

for 52 suppliers, this evaluation has also been supplemented by checks on aspects of social and environmental sustainability, such as 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;

.

in November, 2009, the certification of conformity was confirmed, under the regulation, ISO 9001:2000, of the Management System for Quality for the whole Group s Purchasing Department, with specific acknowledgement of the initiatives undertaken in the field of sustainability;

.

in order to align Telecom Italia with the best practices in the sector and ensure conformity with the strategy of sustainability adopted, a Policy of Green Procurement was defined which provides the guidelines which define the environmental prerequisites for the products/services acquired. The Policy is published on the sustainability channel on the Corporate website, www.telecomitalia.com.

Main initiatives of involvement

.

For the third consecutive year, the Group s main suppliers have been involved in surveys of satisfaction with the Purchasing Department and, more generally, with Telecom Italia. The on-line questionnaire, made up of 33 questions, was up and running for two weeks and the analysis involved 1,022 suppliers with access to the Portal. The overall average outcome of the 328 questionnaires compiled was 72/100 (69/100 in 2008 and 71/100 in 2007) with a percentage of participation of around 32%, compared to 43% in 2008 and 35% in 2007.

.

Regarding the network works division, the activities of the e-community (activated in 2008) have continued, aimed at improving communications with and between suppliers, chiefly on subjects regarding social and environmental sustainability. To this end, an appropriate Internet site called TelecHome has been created. In 2009, discussions were held regarding the correct management of processing waste and the process of training personnel on health and safety in the workplace.

COMPETITORS

Relations with stakeholders

Telecom Italia is involved in the management of association relations, coordinating lobbying and representation activities with Confindustria and its member associations.

The initiatives at the national and local levels consist of actions and meetings about business development and protecting the company s interests in the field of economics, regulations, trade unions and labor. They are based on dialogue and comparison with respective positions in order to identify, where possible, a common position within the sector that can be represented in the national and Community institutional arena.

The Group is a member of 100 territorial Associations and of the following Federations/Associations in the sector: Confindustria - Servizi Innovativi e Tecnologici, Asstel, Assoelettrica, and, from this year, also Assinform, the national association of the main Information Technology companies operating in the market.

As regards the activity of collaboration of Telecom Italia at the international level, the Group works with the various organizations and/or trade / industry associations to which it belongs, such as ETNO (European Telecommunications Network Operators Association), EIF (European Internet Foundation), EABC (European-American Business Council), EITO (European Information Technology Observatory), GII (Gruppo di Iniziativa Italiana), ITU (International Telecommunication Union), BIAC (Business and Industry Advisory Committee).

Commitments regarding the access network

In December, 2008, AGCom approved the voluntary undertakings presented by Telecom Italia under resolution 718/08/CONS, subdivided into 14 main groups, and three additional groups of a methodological nature (variation, expiry, modulation).

Specifically, the undertakings:

.

are aimed at meeting more fully the needs of the customers, both wholesale and retail, promoting innovation in internal processes, the qualitative development and improvement of the fixed access network and respected services, the reduction of disputes;

.

contribute to the development of fair competition with competitors, considering this to be in the interests of the Group, the market, the customers and stakeholders in general, promoting a more efficient and effective equality in the technical and economic treatment between the marketing departments of Telecom Italia and the other operators;

.

ensure the maintenance of competitive conditions in the transition to new generation networks in order to ensure the creation of an open network able to offer the Community high quality services;

.

make the evolution of Telecom s fixed access network more transparent for competitors and institutions through the communication of the technical plans for quality and the development of the infrastructure;

.

receive and acknowledge the requests from AGCom, consumer associations and alternative operators, contributing to the development of a model for relations and solutions to the problems through constructive relationships founded on a climate of trust and continuous dialogue.

A year from their establishment, the state of progress recorded by the undertakings displays an extremely positive trend, both in terms of fulfillment and in terms of innovative solutions provided for the improvement of internal company processes.

INSTITUTIONS

Relations with stakeholders

Telecom Italia constantly keeps abreast of legislative activity by monitoring the flow of policy-making (summaries of parliamentary proceedings and the activities of the Council of Ministers) with the aim of:

- understanding the expectations of the national, central institutions and the evolving trends in parliamentary and governmental regulatory initiatives;
- identifying potential impact on the strategy and business activities of the Group;
- adopting strategies to protect the company s position.

Moreover, Telecom Italia provides information to ministers (mainly the Minister for Economic Development) concerning the activities of the inspection body (parliamentary questions) directed at the Group. Projects and Protocols of Understanding have been defined with the national institutions aimed at the dissemination of ICT, broadband connections and the digitalization of the country. For example, the Protocol of Understanding signed with Minister Gelmini for the diffusion of ICT tools for teaching in schools forms part of this activity.

At the local level, Telecom Italia maintains a constant dialogue with the institutions on subjects of a general nature regarding the electronic communications sector and on issues of local interest with significance for the company s business, from the perspective of problem solving and promoting the Group s image. The monitoring and constant interaction with the decision-making centers of local institutions occurs by means of audiences, participation in workshops, the work of regional Commissions and ministerial and specialist roundtables. Furthermore, Telecom Italia regularly organizes communication initiatives on specific issues of local interest.

Coordination with the company departments operating at the territorial level is fundamental in acquiring information regarding the approaches and expectations from local institutions and providing suitable solutions.

Relations with European and international institutions are 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 the institutional kind (for example, participation in public consultations, workshops, meetings of parliamentary Commissions) and the collaborative type with other operators (meetings with the EU Commission). Among the issues tackled at a European level, subject to the main regulatory/legislative documents of interest to the

Group, are the revision of the Community Directives, the Recommendation on termination, the Recommendation on regulated access to the Next Generation Networking (NGN), and the roaming Regulation and the review of the Universal Service.

Telecom Italia Media also maintains a constant dialogue with the institutions on subjects of interest to the company and has carried out a series of actions with regard to regulatory acts, public consultations, positioning requests by AGCom, of which the following are particularly important:

.

the request for the partial postponement of the obligations for scheduling and investment in support of European works established by the Regulation approved by AGCom under resolution number 66/09/CONS. The decision to take advantage of the possibility for postponement, established by the said Regulation, for the stations of the TI Media Group and in particular for La7, MTV, QOOB and for the satellite channels of MTV, was dictated by the needs of balance and scheduling;

.

public consultation (launched under the resolution number 526/09/CONS of 30/09/2009) concerning the identification of the emerging platforms for the marketing of broadcasting rights for sports, which was concluded on October 30th, in which TI Media, in concert with the other companies of the Group, gave notice of the necessity of incorporating, among the emerging platforms, IPTV, DVB and the mobile platforms such as GSM, GPRS and UMTS.

Regarding relations with the UN, the activities carried out as part of the Global Compact were of particular importance, taking the form of participation in the work group on human rights and in Network Italia. Telecom Italia and TI Media, the two 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 10 principles on which the Global Compact is founded is reported.

THE ENVIRONMENT

Environmental performance

The information on environmental performance has been drawn up from management data and, in accordance with the principle of materiality, only subsidiary companies have been included in the consolidated accounts that fulfill both of the following two prerequisites: revenue greater than 300,000 euros and more than 40 employees, excluding discontinued operations/non-current assets held for sale.

The environmental performance data reported in the following pages cover:

- energy;
- atmospheric emissions;
- water;
- paper;
- waste;
- electromagnetic and noise emissions.

Energy

Energy consumption by Telecom Italia S.p.A and the Group is shown below.

HEATING SYSTEMS

	Telecom Italia S.p.A. 2009	**Changes %**	
		2009 vs 2008	**2009 vs 2007**
Energy consumed in diesel fuel	MJ		

112,979,718

(20.80)%

(24.45)%

Energy consumed in methane fuel

MJ

689,048,720

0.67%

(4.48)%

Total energy for heating

MJ

802,028,438

(3.03)%

(7.86)%

HEATING SYSTEMS

TI Group 2009

TI Group breakdown by BU (%)

	Domestic/Brazil/Other activities	Media	Olivetti
Total energy for heating MJ 919,813,181	92.05%	0.35%	7.60%

(*) In this table and the following tables in the chapter The Environment, under the heading Domestic/Brazil/Other activities, the domestic fixed and mobile TLC activities are included, as are the respective activities of support, the broadband services in the Netherlands, and the activities of the Tim Brasil Group.

The data in the table regarding Telecom Italia S.p.A. shows an overall reduction of consumption for heating systems and, in particular, the consumption of diesel. The substitution of diesel fuel with methane fuel is due to the modernization of the plants which has favored solutions of reduced environmental impact.

VEHICLES	Telecom Italia S.p.A. 2009	Changes %	
		2009 vs 2008	2009 vs 2007
Consumption of unleaded			

petrol	l	5,335,302	(47.51)%	(62.02)%
Diesel consumption	l	17,678,505	21.84%	63.98%
Total energy consumption(*)	MJ	802,128,520	(5.02)%	(4.11)%

(*) Represents conversion into MegaJoules of the consumption of unleaded petrol and diesel expressed in liters.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Telecom Italia S.p.A. 2009	Changes %	
			2009 vs 2008	2009 vs 2007
Total number of company vehicles	no.	21,068	(1.77)%	(2.27)%
Number of low-emission vehicles(*)	no.			

20,787

(1.47)%

(1.98)%

Total distance travelled

km

308,682,237

(1.68)%

(1.05)%

(*)

Vehicles fuelled by unleaded petrol, eco-diesel, bludiesel, LPGL (meeting the Euro4 standard or higher), electricity or fuelled by other combustibles with comparable or lower emissions.

The reduction of energy consumption for vehicles is due, as well as to the reduction of the overall distance travelled by the vehicles, to the gradual change in the composition of the fleet in favor of vehicles meeting high environmental standards (Euro4 or higher with diesel engines that are more efficient compared to petrol engines).

NUMBER OF VEHICLES AND DISTANCE TRAVELLED (*)

		TI Group 2009	TI Group breakdown by BU (%)		
			Domestic/Brazil/Other activities	Media	Olivetti
Total number of vehicles	no.	22,703	98.82%	0.43%	0.75%
Total energy consumed	MJ	1,263,639,200	98.29%		

0.69%

1.01%

Total distance travelled

km

340,392,214

97.67%

0.96%

1.37%

(*)

The data shown refer to the number of all vehicles (including ships, for which the number of kilometers travelled is not shown) of the Group (industrial, commercial, used by senior and middle management and the sales force), both owned and hired. Only where usage is significant and continuous, vehicles, consumption and travel distances of vehicles owned or in use by the sales force of TIM Participações have been included.

PURCHASED OR PRODUCED ENERGY

Telecom Italia S.p.A. 2009

Changes %

2009

vs 2008

2009

vs 2007

Electrical energy from mixed sources(*)	kWh	2,093,375,618	0.00%	(1.34)%
Electrical energy from renewable sources	kWh	42,955,444	15.41%	34.24%
Total electrical energy	kWh	2,136,331,062	0.27%	(0.81)%

(*) Electrical energy acquired from mixed sources is equal to around 2,067 GWh. Self-produced electrical energy from mixed sources is equal to around 26 GWh and refers to the co-generation plant which has also supplied more than 5 GWh of heat with an associated consumption equal to 6.925 million m^3 of methane gas. The production of electrical energy from continuous generators (not shown in the table) is estimated to be around 4 GWh.

PURCHASED OR PRODUCED ENERGY

	TI Group 2009	TI Group breakdown by BU (%)		
		Domestic/Brazil/Other activities	Media	Olivetti
Total electrical energy	kWh	2,517,799,605	98.10%	1.12%	0.78%

The increase in the consumption of energy is connected to the greater volumes of telephony/data traffic on the transmission networks. This increase has been mainly met through recourse to the acquisition of renewable sources. In future, Telecom Italia S.p.A. will achieve a significant increase in the internal production from these sources.

The initiatives to optimize energy consumption already undertaken in preceding years have continued and interventions during 2009 have mainly regarded:

.

the technological improvement of air conditioning systems and interventions to reduce electricity consumption through the segregation of environments with different temperature needs;

.

the modernizing of AC/DC conversion equipment through the introduction of technological solutions that guarantee greater yield;

.

the maintenance of the efficiency of the fixed traditional switching network and the data networks;

.

the technological upgrading of mobile network equipment in order to improve the performance in terms of transmission capacity, the need for air conditioning and energy consumption;

.

the adoption of efficient technological solutions for the Data Centre servers, thanks to the concentration and virtualization of the machines and the consequent reduction of the respective energy consumption;

.

the measurement of energy and remote control of the exchanges rooms;

.

the installation of time switches to turn off the lighting equipment;

.

the sharing of technological sites and Radio Base Stations, thanks to co-siting agreements;

.

the raising of the average operating temperature of the telephone centers, servers and Radio Base Stations;

.

the introduction of free cooling systems and other low environmental impact air conditioning.

Atmospheric emissions

The atmospheric emissions of Telecom Italia S.p.A. and the Group are given below in accordance with the guidelines of the Global Reporting Initiative (GRI G3), divided into:

-

direct emissions (Scope1: use of fossil fuels for vehicles[3], heating, electrical energy generation);

(3) Emissions of CO_2 connected to the use of fossil fuels for powering motor vehicles and heating systems 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 vehicles of Telecom Italia S.p.A. making reference to the specific type of motor vehicle.

- indirect emissions (Scope2: procurement of electrical energy for civil and industrial use[4]);

- other indirect emissions (Scope3).

ATMOSPHERIC EMISSIONS

Telecom Italia S.p.A. 2009

Changes %

2009

vs 2008

2009

vs 2007

Emissions of CO_2 for vehicles	kg	47,672,817	(4.35)%	(9.76)%
Emissions of CO_2 for heating	kg	53,043,281	(3.52)%	(8.31)%
Emissions of CO_2 equivalents for HCFC/HFC dispersal	kg	29,386,020	(27.78)%	-
Emissions of CO_2 from cogeneration	kg	10,419,354	104.30%	-
Emissions of CO_2 for diesel generation				

kg

3,639,346

0.02%

-

Total direct emissions of CO_2 - under Scope1 GRI

kg

144,160,818

(6.54)%

-

Emissions of CO_2 from purchased electrical energy produced from mixed sources

kg

832,982,452

(0.60)%

(2.59)%

Total indirect emissions of CO_2 - under Scope2 GRI

kg

832,982,452

(0.60)%

-

Emissions of CO_2 for home-work commuting(*)

	kg	65,478,775	(4.26)%	-
Emissions of CO_2 for air travel(**)	kg	11,855,978	(28.18)%	-
Total of other indirect emissions of CO_2 - under Scope3 GRI	**kg**	**77,334,753**	**(8.91)%**	**-**
Total emissions of CO_2	**kg**	**1,054,478,023**	**(2.11)%**	**(***)**

(*)

In determining the impact of home-work commuting, reference is made to statistics on personnel.

(**)

The calculations of emissions for air travel are made on the basis of the coefficient proposed by the GHG Protocol which depends on extent of the duration of individual trips.

(***) Starting from 2008 the scope of measurement of CO_2 emissions has included new issues. For this reason, data referring to 2007 is not comparable to the others.

ATMOSPHERIC EMISSIONS

TI Group 2009

TI Group breakdown by BU (%)

Domestic/Brazil/Other activities

Media

Olivetti

Total emissions of CO_2 under Scope1 GRI	kg	187,513,764	96.58%	0.46%	2.96%
Total emissions of CO_2 under Scope2 GRI	kg	870,513,631	98.41%	1.31%	0.28%
Total of other emissions of CO_2 under Scope3 GRI (*)	kg	86,586,321	100%	-	-
Total emissions of CO_2	kg	1,144,613,716	98.23%		

1.07%

0.70%

(*) The calculation of the Scope3 emissions refers to Telecom Italia S.p.A. and Tim Participaçoes.

Notwithstanding the disclosure of data regarding additional sources not considered previously (electricity production from cogeneration and diesel generators, dispersal of HCFC/HFC, home-work commuting and air travel), the atmospheric emissions of Telecom Italia S.p.A. overall have been reduced, for the following reasons:

.

lower consumption by vehicles;

.

lower consumption for heating;

(4) To calculate the emissions from the acquisition of electrical energy, the GHG Protocol method has been used. This takes into consideration the energy mix of individual countries. The national GHG coefficient, expressed in grammes of CO_2/kWh, are as follows: Italy 403; the Netherlands 394. For Brazil, the coefficient worked out by the local Ministry of Science and Technology has been used, which is equal to 25 grammes of CO_2/kWh, which is held to be more accurate.

.

reduction of the CO_2 equivalents emissions, with respect to the dispersal of HCFC and HFC used in air conditioning systems, through the adoption of more meticulous methods for preventing leaks and the replacement of these gases with solutions with low environmental impact;

.

an increase in CO_2 emissions that can be ascribed to the cogeneration resulting from the company s decision to invest more in this technology, with financial and environmental benefits. The increase is compensated, however, by the reduced acquisition of electricity by the network, which overall has led on balance to fewer emissions;

.

stable emissions from diesel electricity generators in situations where the electricity distribution network is unavailable;

.

reduction of the emissions from the acquisition of electricity from mixed sources due to the increased production of energy from cogeneration plants and the acquisition and in-house production of energy from renewable sources;

.

reduction of the impact from home-work commuting, dependent on the number of employees;

.

reduction of the emissions for air travel by employees due to the reduction of the number of trips also following the greater use of video conferences.

Water

Water consumption by Telecom Italia S.p.A and the Group is shown below.

The total consumption of water by the Group reveals the contribution of Olivetti due to withdrawal from artesian wells for the industrial component.

Paper

Paper consumption by Telecom Italia S.p.A and the Group is shown below.

	PAPER FOR OFFICE USE
	Telecom Italia S.p.A. 2009
	Changes %
	2009
	vs 2008
	2009
	vs 2007

Non-recycled paper purchased	kg	0	(100.00)%	(100.00)%
Recycled paper purchased	kg	0	(100.00)%	(100.00)%
FSC certified paper purchased	kg	637,888	-	-
Total paper purchased for office use	kg	637,888	(4.43)%	(11.76)%

In 2009, for paper procurement for office use and telephone bills, Telecom Italia S.p.A. decided only to use paper from forests managed according to the standards of the Forest Stewardship Council (FSC).

PAPER FOR OFFICE USE

TI Group 2009

TI Group breakdown by BU (%)

Domestic/Brazil/Other activities

Media

Olivetti

Non-recycled paper purchased	kg	2,231	74.41%	0.00%	25.59%
Recycled paper purchased	kg	90,768	100.00%	0.00%	0.00%
FSC certified paper purchased	kg	699,036	96.58%	2.53%	0.89%
Total paper purchased	kg	792,035	96.91%	2.24%	0.85%

Waste

The data shown in the table refer to the quantity of waste consigned[(1)] and legally accounted for[(2)].

WASTE CONSIGNED (*)

	Telecom Italia S.p.A. 2009	**Changes %**	
		2009 vs 2008	**2009 vs 2007**

Hazardous waste	kg	6,268,050	22.42%	115.13%
Non hazardous waste	kg	11,536,683	6.97%	(11.12)%
Total quantity of waste	kg	17,804,733	11.95%	12.02%
Waste for recycling/reclamation	kg	16,190,509	14.78%	4.07%
Ratio between recycle/reclaimed waste and total waste		90.93%	2.53%	

(7.10)%

(*) The data does not include telephone poles.

(1) By waste consigned is meant waste delivered to carriers for recycling or reclamation or disposal. From checks carried out in 2007 in the field of technological waste on around 6,000,000 kg of waste delivered to carriers for recycling and reclamation, 97% was recycled and reclaimed effectively while the remaining 3% was disposed of.

(2) There may be slight variations in the situation from December 31 until the following March 31, in so far as the sources for the data are the records of loading and unloading of waste that are made once the actual weight has been checked at destination. The information is supplied to the producer of the waste within 3 months of the consignment and this explains the possible variations in the data.

WASTE CONSIGNED

TI Group 2009

TI Group breakdown by BU (%)

Domestic/Brazil/Other activities

Media

Olivetti

Total waste consigned
kg
21,327,467
92.57%
0.34%
7.09%

The increase in hazardous waste evident from the table regarding Telecom Italia is attributable mainly to the replacement of lead batteries, in addition to the demolition works in certain buildings. The increase in non-hazardous waste can also be ascribed to the decommissioning of buildings and respective fittings. The ratio between waste produced and that consigned for recycling/recovery has improved.

Following the Program Agreement for managing obsolete wooden telephone poles, signed in 2003, upon the favorable opinion of the State-Region- autonomous Province Conference, with the Ministry for the Environment and Protection of the Territory, the Ministry for Production Activities and production and reclamation companies, the decommissioning also continued in 2009 with the substitution or elimination of 126,422 poles.

Electromagnetic and noise emissions

The concerns of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

.

in the careful and proper management of its equipment during its life cycle in regard to the applicable 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 has continued of the levels of electromagnetic emissions in the installations of La7, MTV and TI Media in order to guarantee that legal limits are respected and high safety standards are maintained.

Similar concern is given to the emissions from mobile handsets operating on the frequency bands operated by Telecom Italia: GSM 900Mhz, DCS 1800MHz and UMTS. In 2009, in line with the established targets, 100% of the models of technologically innovative mobile phones widely distributed in Italy and 25% of the Brazilian models have been subjected to the SAR qualification[(1)].

In the area of reducing acoustic pollution, checks have continued on the noise emissions of company plants: in 2009, 21 sites have been renovated (11 of the fixed network and 10 of the mobile network) which displayed problems following internal controls, and 70 notifications of problems linked to the noise from plants have been dealt with by carrying out operations of maintenance/replacement, implementing specific operational methods (for example, time switches on the air conditioning) or creating anti-noise barriers.

Climate change

The Information and Communication Technology (ICT) sector can play a fundamental role, not only in containing its own CO_2 emissions, but above all by contributing to the reduction of the emissions of other sectors, thanks to the provision of services which enable new ways of working, learning, travelling and, more generally, living. According to the Global e-Sustainability Initiative (GeSI Smart 2020), ICT will be responsible for around 3% of global emissions of CO_2 in 2020 but will contribute to the reduction in the CO_2 emissions from other industrial sectors by around 15%.

The approach pursued by the Group in fighting climate change is based on action on two levels:

1.

reduction of its own direct and indirect emissions of greenhouse gases (the reduction of emissions);

(1) SAR Specific Absorption Rate: the value of electromagnetic power absored by a given mass of tissue. SAR is measured in Watt/kg.

2.

encouragement and support for the dematerialization of goods and services by contributing to the reduction of the emissions by other sectors (Telecom Italia as part of the solution).

Reduction of emissions

Telecom Italia has numerous initiatives underway and planned, including the following activities:

.

the replacement of Euro3 vehicles with Euro4 diesel vehicles with anti-particulate filters (FAP) and the reduction of the number of vehicles. The modernization of the car park involved 1,504 cars and brought a reduction of around 30% in emissions that would have been produced by the decommissioned cars;

.

the modernization of the oil-fired thermal power stations with mainly gas-fired plant. The conversions carried out led to a reduction in CO_2 emissions of 214 tons;

.

the adherence to the EEB Manifesto (Energy Efficiency in Buildings) promoted by the World Business Council for Sustainable Development (WBCSD) to improve the energy efficiency of buildings and the respective accountability. The initiatives, operational in 2010, will involve 68 company properties used as offices;

.

The NGDC (Next Generation Data Centre) project with the objective of the modification of the Information Technology architecture through the physical concentration and virtualization of the servers to reduce the current 11,350 servers to less than 2,000 by 2011. This new configuration allows the reduction in the costs of maintenance/administration and energy consumption and will bring an energy saving in the order of 40% compared to the original configuration.

Eco-efficiency indicator

Telecom Italia S.p.A. has been measuring its own energy efficiency for many years by using an indicator that establishes a relationship between the service offered to the customer, simplified as the measurement of bits transmitted, and the company s impact on the environment in terms of energy consumed. The factors taken into consideration are the amounts of data and voice traffic of the fixed/mobile networks and industrial energy consumption (for transmission and climate control in the centers), domestic (electricity for office use, air conditioning and heating in the offices) and consumption for vehicles.

The following table shows the level of the eco-efficiency indicator in recent years.

Year	**kbit/kWh**	**bit/Joule**	**% increase year 200x vs 200x-1**
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,175,006	596	+63%
2007	3,144,283	873	+45%

2008	
	4,237,038
	1,177
	+35%
2009	
	4,739,570
	1,317
	+12%

In 2009, the indicator values, although slightly improved, were lower than expected. The annual increase is progressively diminishing: energy efficiency measures and the rise in traffic already achieved have reduced the margin for further improvement. The commitment is being carried through with the definition of the target for 2010: 1,410 bit/Joule (+7% compared to 2009).

Mobility management

Telecom Italia has launched the Mobility Management project in order to reduce the environmental impact of home-work commuting and contribute to improving the quality of life of employees, in particular in Italian cities with urban traffic difficulties and high atmospheric pollution. Initiatives have been undertaken at the management offices with the public transport companies aimed at improving connection services, thus encouraging the use of public means of transport.

Telecom Italia as part of the solution

ICT can play a significant role in the fight against climate change through the promotion and diffusion of products and services which encourage behavior that can reduce or eliminate the emissions of greenhouse gases generated by the transport of people and objects in the territory. In general, progress in ICT technology favors the replacement of traditional physical products and services with digital products and processes. Some examples follow:

- Video and audio conferencing services avoid the need for the transport of personnel.

- TLC services allow teleworking with a consequent reduction in home-work commuting by employees.

- The use of on line invoices and payments, in addition to saving paper, and therefore the energy required to produce and transport it, eliminates the need for transport for making payments.

- Telemedicine services allow the reduction of the need for doctor and patient to physically meet, reducing the use of transport and the consequent emission of greenhouse gases.

- Infomobility systems, using information received from mobile handsets, allow the more efficient management of traffic, reducing journey times and therefore the emission of carbon dioxide.

- The systems for the monitoring and analysis of consumption allow the optimization of the energy efficiency of offices and dwellings.

Report on Operations 2009

Telecom Italia Group

THE COMMUNITY

Contributions to the Community

Contributions made by the Telecom Italia Group to the Community during 2009, calculated according to the guidelines of the London Benchmarking Group (LBG), amounted to 36.5 million euros (36.3 million euros in 2008), equal to 1.09% of the Pre-Tax Profits.

The calculation of the contributions was carried out using management data, in part based on estimates. In accordance with the principle of materiality, only those subsidiary companies have been included in the consolidated accounts that fulfill the following two prerequisites: revenue greater than 300,000 euros and more than 40 employees, excluding discontinued operations/non-current assets held for sale.

Over 100 major international companies subscribe to the LBG, which represents the gold standard at the global level in the classification of voluntary contributions by companies in favor of the Community.

In line 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 in the Community), displayed below as a pyramid diagram:

The criteria used to assign the contributions to the various levels of the pyramid now follow.

Charity

Intermittent support to a wide range of good causes in response to the needs and appeals of community organizations, increasingly through partnerships between the company, its employees, customers and suppliers.

Donations to national/international organizations not based on a specific medium/long term program.

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 program.

Initiatives in the Community

Activities in the Community usually by commercial departments to support directly the success of the company, including in partnership with humanitarian organizations.

Sponsorship of events, publications and activities promoting brand or corporate identity.

Cause Related Marketing, promotional sales.

Support to scientific and University research and to philanthropic organizations.

Care for consumers with special needs.

Civil Protection activities.

Report on Operations 2009

Telecom Italia Group

Research and Development

Telecom Italia Group s research and development activities are carried out by TILab, by the operational and business Units (Networks, Marketing, Information Technology, Security) and by the Group s companies.

TILab is the Technology and Operations Department s structure for overseeing the Group s technological innovation, scouting out new technologies and carrying out engineering operations on services and network platforms, through a network of strategic partnerships with the main producers of telecommunications equipment and systems, and with research centers of excellence at the most highly qualified national and international academic institutions. In 2009, three new collaborative projects were begun with the same number of universities (in addition to the thirty already underway since the beginning of 2009) covering research into new technologies, encryption algorithms, services concepts and new paradigms of communication.

Activities to enhance and generate competitive advantage for Telecom Italia Group have been pursued through a strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at the development of the company s assets in patents rights; in this context, during 2009, 20 new applications for patents were registered.

The main activities carried out by TILab are:

.

the creation of services in the iPhone environment, in particular, access to information and multimedia content in the area of value added services (VAS). As part of this, version 2.0 of the Virgilio portal was successfully launched, enriched with maps and local content;

.

the conducting of experiments with innovative fiber cabling solutions inside buildings (Fiber to the Home FTTH);

.

the start of engineering and deployment operations on 200 exchanges of the Kaleidos system for energy efficiency. Installations have been created to test the results of energy efficiency of business customers;

.

an innovative solution for air conditioning in the exchange environments called Extraction and Full Free Cooling (EFFC) has been devised and tested in TILab s test plant;

.

the start, in partnership with the Miroglio Group, of the first initiative at national level for a fidelity card based on SIM, with Near Field Communication (NFC) proximity technology, which enables the use of the phone owner s SIM as a Fidelity Card;

.

the development, in collaboration with Nokia Siemens Networks, of the first intelligent antennas, capable of improving the performance of High Speed Packet Access (HSPA) technology. This equipment makes it possible to optimize the mobile radio base stations, improving the quality of the service offered to customers and, at the same time, guaranteeing less energy consumption and a reduction of electromagnetic fields;

.

experiments in the field of LTE (Long Term Evolution) technology, natural evolution in accordance with the 3GPP standard of the HSPA technology currently in use;

.

the release for operation of the converging contact centre platform for business customers;

.

the completion of the adjustments of the mobile network to enable the retracing of attempted calls (Frattini decree);

.

the release for operation of the advertising platform on the WAP and MMS services.

In addition, in 2009, TILab made a decisive contribution to the success of two Group initiatives of great social importance:

.

the activation at four pediatric hospitals in Italy of Smart Inclusion, a remote teaching solution aimed at child patients;

.

the activation in Rio de Janeiro of the first pilot project of Telemedicine, bringing remote health care to the city s most disadvantaged people.

The research and development activities carried out by the Operational and Business Units of Telecom Italia, carried out internally or outsourced, have been directed towards the creation of:

.

software products dedicated to the management of new commercial offers and new services for customers (Business Support Systems), to the proper functioning of network support systems (Operational Support Systems), and to Security;

.

testing and specific checks for tenders and new network architecture;

·

new hardware infrastructure in support of the applications.

The main activities have been:

·

the development of a new platform, CRM Business, for the commercial management of the SOHO, SME, Enterprise and Top customers;

·

the development of a new platform, single, convergent billing for the administration of the invoicing of fixed/mobile services for the consumer customers;

·

the evolution of digital platforms in support of the business departments in the implementation of new services for the Consumer, Business & Top customers;

·

the evolution of the hardware infrastructure in accordance with the principles of virtualization (Next Generation Data Centre) and the provision of the technologies in order to develop the commercial offers in the ICT market (for example, Ospit@Virtuale).

HUMAN RESOURCES

Headcount and changes

Telecom Italia Group

The headcount of personnel at December 31, 2009, was divided as follows:

(units)	**12.31.2009**	**12.31.2008**	**Changes**
Italy	60,829	63,521	(2,692)
Abroad	10,499	11,017	(518)
Total personnel on payroll			

	71,328	**74,538**	**(3,210)**
Leased Personnel	56	782	(726)
Total personnel	**71,384**	**75,320**	**(3,936)**
Non-current assets held for sale	2,205	2,505	(300)
Total	**73,589**	**77,825**	**(4,236)**

Excluding personnel concerned with Non-current assets held for sale (HanseNet) and leased personnel, the Group s workforce has been reduced by 3,210 units compared to December 31st, 2008.

The changes can be itemized as follows:

.

the departure of the company TM News (105 units) from the area of consolidation;

.

the entry into the area of consolidation of the company INTELIG Telcomunicaçoes (580 units);

.

net turnover down by 3,685 units, as specified for individual Business Unit:

(units)	**Recruited**	**Departed**	**Net change**
Domestic	630	3,082	(2,452)
Brazil	2,024	3,109	(1,085)
Olivetti, Media and Other activities	255	403	

			(148)
Turn over	**2,909**	**6,594**	**(3,685)**

Telecom Italia S.p.A.

(units)	**12.31.2009**	**12.31.2008**	**Changes**
Personnel on payroll	54,236	56,650	(2,414)
Leased personnel	-	635	(635)

	Total
	54,236
	57,285
	(3,049)

At December 31st, 2009, Telecom Italia S.p.A. personnel on payroll numbered 54,236 units.

Compared to December 31st, 2008, an overall reduction of 2,414 units was recorded, due to:

.

the entry of 61 units from other Group Companies;

.

net turnover down by 2,475 units, as specified:

(units)	Recruited	Departed	Net change
Telecom Italia S.p.A. - Turn over	384	2,859	(2,475)

Tim Brasil Group

(units)	12.31.2009	12.31.2008	Changes
Tim Brasil Group - Total	**9,783**	10,285	(502)

The headcount of personnel of Tim Brasil Group as of December 31st, 2009, was equal to 9,783 units.

Compared to December 31st, 2008, an overall reduction of 502 units was recorded, due to:

- the entry of 3 units from other Group Companies;
- the entry into the area of consolidation of the company INTELIG Telecomunicaçoes (580 units);
- net turnover down by 1,085 units, as specified:

(units)	Recruited

	Turn over Tim Brasil Group
	2,024
Departed	3,109
Net change	(1,085)

Excluding leased personnel and people working in non-current assets held for sale, the number of personnel operating in Italy is equal to 85% of the Group total and can be broken down as follows:

The distribution of personnel by geographic area and recruitments undertaken by the Group, excluding leased personnel and personnel concerned in Non current assets held for sale, is detailed below:

The number of personnel operating in Tim Brasil Group is equal to 14% of the Group total and can be broken down as follows:

Gender Balance

In 2009, 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 2009, the percentage of women holding senior management positions in Tim Brasil was approximately 19% and, in middle management, the proportion of the total was 27%.

In Tim Brasil, women employed by the company rose from 3,263 in 2003 (54% of the total) to 6,220 in 2008 (60% of the total) and to 5,726 in 2009 (58% of the total).

People caring

People Caring is the department created by Telecom Italia to respond to the expectations of the personnel on certain important issues identified through active listening carried out both on line (Intranet, community, email) and through meetings and focus groups.

The issues identified are as follows:

.

work-life balance;

.

support for the needs of children and families in general;

.

support for initiatives of voluntary service by employees;

.

encouraging forms of diversity present in the work context through diversity management activities and projects.

For each of the areas identified, numerous initiatives have been brought into being, among which is the integrated system for balancing family and work for which Telecom Italia was awarded the Family-Work Prize, 2009, devised and promoted by the Lombardy Region in collaboration with ALTIS (Alta Scuola Impresa e Società, Catholic University).

Reimbursements are provided in favor of employees for supplementary health services, in addition to those provided by the National Health Service, both in Italy and Brazil. Through CRALT, Telecom Italia organizes, for employees and pensioners, initiatives in the fields of tourism, sport, recreation and culture. In Telecom Italia and Tim Brasil, private social security plans exist for all employees.

Development

During the year, a process of reappraisal has been underway of the Performances Evaluation System with the introduction, since 2008, of certain significant tools to increase the selectivity, make the evaluation criteria more uniform and encourage feedback discussion on the assessments.

Recruitment

In 2009, an external selection policy was implemented, applicable at the Group level, which ensures uniformity in the processes of selection of the resources coming into the company, in line with the provisions of the Group s Code of Ethics.

The policy is founded on the recognition of the value of the diversity of each individual, irrespective of sex, religion, ethnicity, opinion and ability, and ensures equal opportunities for people who take part in the selection processes leading to recruitment by Telecom Italia.

To pave the way for the access of young people to the world of work, numerous initiatives have been carried out during the year aimed at creating training routes (for example, the School-Business Network and Campus projects, carried out in collaboration with the Centro Elis, Nosso Aprendiz and Telentos sem fronteiras implemented by Tim Brasil).

Training

In the Telecom Italia Group, training activities undertaken in the period January-December, 2009, amount, for personnel in Italy, to around 1.8 million hours, as the following table shows, and around 19.8 million euros in direct costs, excluding the cost of the work and travel expenses.

In all, 80.1% of the Group s personnel have participated in at least one training session.

TOTAL BY TRAINING TYPE

Type of Training	HOURS		COSTS		PARTICIPATION (*)	PARTICIPANTS	COVERAGE
	TOTALS	PER CAPITA	TOTALS	PER CAPITA			

Specialist training	
	1,650,721
	27.7
	12,242,604
	206
	270,720
	42,909
	72.1
Senior Managers	
	4,162
	4.1
	229,962
	225
	404
	262
	25.7

Middle Managers	
	30,753
	7.1
	1,800,681
	413
	3,229
	1,800
	41.3
Office Staff/Workers	
	1,615,805
	29.8
	10,211,961
	189
	267,087
	40,847
	75.4
Managerial training	
	94,430
	1.6
	6,893,905
	116
	6,593
	4,930
	8.3
Senior Managers	

10,741

10.5

1,725,185

1,691

850

405

39.7

Middle Managers

17,390

4.0

1,694,627

389

1,295

857

19.7

Office Staff/Workers

66,299

1.2

3,474,094

64

4,448

3,668

6.8

Institutional training

13,832

0.2

116,606

2

4,633

4,370

7.3

Senior Managers

723

0.7

2,178

2

152

132

12.9

Middle Managers

3,501

0.8

99,690

23

589

513

11.8

Office Staff/Workers

9,608

0.2

	14,738
	0
	3,892
	3,725
	6.9
Training for newly-hired employees	
	49,176
	0.8
	97,210
	2
	1,650
	682
	1.1
Senior Managers	
	0
	0.0
	0
	0
	0
	0
	0.0
Middle Managers	
	144
	0.0
	0

0

7

7

0.2

Office Staff/Workers

49,032

0.9

97,210

2

1,643

675

1.2

Language training

18,132

0.3

539,138

9

703

650

1.1

Senior Managers

3,858

3.8

170,991

168

104
90
8.8
Middle Managers
4,336
1.0
112,531
26
193
156
3.6
Office Staff/Workers
9,938
0.2
255,616
5
406
404
0.7
TOTAL
1,826,290
30.7
19,889,464
334
284,299

47,669

80.1

Senior Managers

19,484

19.1

2,128,316

2,087

1,510

603

59.1

Middle Managers

56,124

12.9

3,707,529

851

5,313

2,425

55.7

Office Staff/Workers

1,750,682

32.3

14,053,618

259

277,476

44,641

82.4

(*)

Shows the overall number of participation in training sessions, in the various forms provided (classroom, training on the job, on line)

123

Report on Operations 2009

Telecom Italia Group

The 2009 training plan has three priorities:

· the promotion, development and diffusion of expertise, in line with the objectives of the Industrial Plan and with organizational needs;

· the development of a management culture, in line with the evolution of the business and the key scenarios;

· the dissemination of knowledge in the socio-economic context and awareness of corporate responsibility.

Among the many training activities being carried out, we draw attention to the Expressing Quality project, which, through the use of interactive methods, communicates the new business vision based on quality and an orientation toward customer satisfaction.

Listening activities and projects

The instruments available to employees within the company to have their voice heard, both formal and informal, are numerous. In Telecom Italia and Tim Brasil, employees can make a series of approaches of an informal nature to various dedicated email addresses, obtaining prompt responses on the services required and the issues raised. Other instruments exist capable of reaching everyone, to disseminate information but also to arrange broader occasions for formal and informal listening, such as climate analysis, the blogs and the open virtual communities. In this way, discussion and debate are encouraged on internal issues linked to business and more general current topics, including environmental and social subjects. In this framework, other recent experiences have been included which see the participation of personnel as a determinant factor and which, for this reason, provide structured channels for the collection of contributions and proposals. Among these is the Archimede project, developed by the Open Access department to provide a climate for reinforcing the team spirit, but also to collect good ideas, which can contribute to resolving problems and improving relations with the customer, giving those who put them forward recognition, a sense of belonging, an enthusiasm for feeling an active part within the system. The project involved 20,000 people in Open Access and ended with the awarding of prizes for the 34 best ideas (out of 2,521 received), aimed at ensuring greater quality of the services offered by the structure. The project was also broadened in 2009 to the Wholesale department.

The third edition of The Lighthouse, the listening project launched in 2006, which involves employees putting forward ideas and opinions on matters of interest to the company, and in experimenting with the Group s new products and services. The latest edition attracted 3,177 subscribers among colleagues through the on line questionnaire.

Internal communication

In 2009, internal communication continued the process of greater encouragement and listening to employees in order to bring the company and the personnel closer together. The internal communication events of 2009 were conducted with the intention of involving the greatest possible number of employees and making them the driving force behind the choices linked to the business and the growth of customer satisfaction. A limited number of people took part live, whilst a large number watched the video streaming from their workstations and took part in the discussion with managers via blogs and virtual networks. The on line method also allows the impact of the Group on the environment to be minimized in terms of greenhouse gas emissions. The emissions of CO_2 generated were compensated for all the events.

The Group s personnel have been the subject of photographs, videos and stories that have enriched and empowered the company s media.

There were numerous activities and projects aimed at integration conducted by the Group in Italy during 2008, among them:

.

the Community of the company Intranet which allows colleagues to share their experiences, needs and opinions on various issues. In the noi.perloro section of the Community, there is an interactive space dedicated to projects of volunteer work and solidarity;

.

the issue-based blogs for sharing the suggestions and ideas of employees on social issues (dyslexia), experimentation (TIM Net , The Lighthouse), Quality (Expressing Quality), research (New generation TLC network , Resear Trends), passion for photography (Emotional zoom).

Health and Safety

In 2009, the Group has pursued or launched certain specific projects and initiatives:

.

updating of the Risk Assessment Document (RAD) for the health and safety of workers and the organizational procedures regarding safety at work in contracts of tender and works;

.

continuation of the Wellbeing in the call centers project which has the aim of understanding the variables which help influence, in a determinant way, the wellbeing of the people who work there and identify possible actions of improvement;

.

training and making workers aware of issues regarding health and safety at work.

Accidents

The data on accidents regarding Telecom Italia S.p.A. are presented below in comparison with data referring to the preceding years.

	2009	2008	2007
Number of accidents	1,079	932	969
Severity index (*)	0.42	0.45	0.24
Frequency rate (*)	11.28	9.77	10.28
Average duration in hours	127.73	127.31	136.01
Rate of unproductiveness (*)			

1.44

1.24

1.40

Accidents per 100 workers

1.97

1.63

1.62

(*)

The indices of severity, frequency and unproductiveness are respectively:

-

the number of conventional working days lost in the year for every thousand hours worked;

-

the number of accidents per every million hours worked;

-

the number of hours lost due to accidents for every thousand hours worked.

Alongside the many training projects intended for the technical personnel, there has been a reduction of more than 1% in workplace accidents, that is, those closely related to occupational hazards.

In particular, we draw your attention to:

.

the annual program of training and instruction for the routine and general maintenance of the TLC plants which require attention at a high altitude (telegraph poles, ladders and pylons). These programs have made possible a reduction of work related accidents in this area equal to 1.6%;

.

the Project Drive Safely , in its third year of activity, has allowed the attainment of a notable reduction in the accident index related to road accidents whilst in service. In fact, only in the last year, the reduction has been equal to 7.26%, whilst in the last three years it has been reduced by some 40%;

.

the training program has included, via a video course, the entire workforce of Telecom Italia and through a pluriannual program, the technical personnel who use a company vehicle intensively in everyday activities (in 2009 this was 613 technicians).

During the year, we also recorded an increase in non-work related accidents, not connected to working activities and two fatal accidents, of which one was work related.

Industrial relations

On December 31st, 2008, the validity of the Collective National Work Contract (CCNL) for personnel in telecommunications businesses expired. Negotiations for its renewal, begun in January, 2009, with coordination by the trade association Asstel, led to the signing, on October 23rd, of the new CCNL for the years 2009-2011. Specifically, the Contract provides for:

.

the adjustment of the minimum salaries on the basis of the Harmonized Consumer Prices Index;

.

the updating of all the regulatory schemes regarding the labor market, incorporating the latest legislative amendments;

.

the institution of a form of supplementary health assistance for all workers of the sector;

.

the increase in leave days for student-workers;

.

the establishment of a bilateral agency for sector training which will arrange the provision of a catalogue of courses on the subject of the environment and safety at work, a responsibility under the law 231/2001, regulations on matters of privacy, basic computing and basic language training, work relations, CCNL and social security.

In addition, the Contract has introduced a new and more multifaceted system of relations between companies and unions, according to European Community guidelines. Indeed, the Observatory on Remote Control and the National Forum have been established as the leading centers of analysis, verification and discussion between the parties on the issues of financially dynamic, technological development in the sector, the evolution of legislative activities, relations with consumer associations, social corporate responsibility, the labor market, equal opportunities and safety at work. The new system of industrial relations will further encourage the dialogue between Telecom Italia, Trade Union Organizations, and the stakeholders.

In the months of January and February, with successive in-depth meetings, the Company explained to the Trade Union Organizations the organizational considerations in the Strategic Plan, 2009-2011. In the context of the subsequent changes to the workforce, a mobility procedure was launched on May 25 under law 223/91 for 470 workers operating in the Directory Assistance sector (Service 1254, Data Lists Assurance, Exchanges, International Work Services Centre, Territorial Support).

On July 21st, the Company renounced the recourse to mobility and stipulated with the Trade Union Organization, at the Ministry of Labor, a Contract of Solidarity of the defensive type, under the legal measures in force, regarding the workers concerned. This Contract provides for the reduction of the working hours to avoid, wholly or in part, the reduction or the declaration of redundancy of personnel. For the workers in question, a partial integration is envisaged, by INPS, of the payment not received due to the reduction in working hours.

On February 5th, 2009, specific agreements were signed with SLC-CGIL, FISTER-CISL and UILCOM-UIL on conducting the elections of the Unitary Union Representative Body (RSU) and Health and Safety representatives (RSL), on conformity with union standards and on the Joint Health and Safety Committees. The latter, in order to maintain the participatory system as the preferred instrument for verification, analysis and discussion, are composed of an equal number of company and union members. Their task is to adopt initiatives aimed at the protection of the health and the physical integrity of the workers, to examine the increasing incidence of accidents and where necessary propose actions of improvement, to contribute to the definition of the position on matters of training and information for workers and the RLS.

Following the earthquake in L Aquila, which made the company offices inoperable, on April 7th, the Company and the Union subscribed to the joint examination under article 5, paragraph 1, of the law 164/75, activating for a period of four weeks the Ordinary Temporary Unemployment Compensation for 62 workers. Furthermore, the company has provided instruments of further economic support, thereby enabling workers to manage the problems caused by the earthquake, assured of income and free from usual daily work activities.

Later in 2009, on October 12th, the Company and Unions defined the 2009-2010 calendar of collective holidays, identifying the days and the company structures involved in the closures (so-called non-operative structures).

According to the provisions of the Agreement signed between the Company and Trade Union Organizations on May 14th, 2008, on the issue of Performance-Related Bonuses, on May 5th an agreement was signed with SLC-CGIL, FISTEL-CISL, UILCOM-UIL, the National RSU and UGL Telecommunications Coordination, which defined the organizational macro-fields and the parameters of quality/productivity required for the definition of the Performance-Related Bonuses 2009-2011 of Telecom Italia S.p.A. The agreement allows for a more direct correlation with the contribution to the results of the business of specific groups of workers, encouraging the involvement of the workers and a greater sense of belonging to the business.

As envisaged by the CCNL and the Protocols of Industrial Relations of Company and Trade Unions, during the year numerous meetings were held at the national level on many issues, among them: the contracts signed by the Company with suppliers and partners, the new reference model for company training, the reorganization of important company structures such as the Technology & Operations Department and the Security Department, the process of professional mobility of the staff areas towards operational structures.

On January 22nd 2009, an understanding was reached with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the RSU of Matrix S.p.A. on the second level of negotiations, under which improved treatment was defined for workers compared to that provided by the CCNL, according to the guidelines already adopted in Telecom Italia S.p.A.

On December 16th, 2009, furthermore, the establishment of a Performance-Related Bonuses for the workers of Matrix S.p.A. was signed with the same Trade Union Organizations, which links the variable part of pay to the trend of the company s earnings.

As regards Shared Service Center S.c.r.l., on March 17th, 2009, a supplementary agreement of the National Collective Agreement was signed with SLC-CGIL, FISTEL-CISL and the RSU, which set a one off payment for all workers covering the Performance-Related Bonuses for 2008. On May 21st, furthermore, negotiations were launched to define the Bonuses for 2009 with the company s RSU and the National Secretaries of the SLC-CGIL, FISTEL-CISL and the UILCOM-UIL, which led to the signing, on December 18th, 2009, of a specific understanding.

As regards the industrial relations activities conducted by TI Media:

·

on February 2nd, 2009, an understanding was reached with the journalists Trade Union Organizations with regard to the procedure of collective dismissal regarding 25 journalists, which occurred in September, 2008. The agreement, reached through the regulatory schemes of the solidarity contract, revokes the procedure of collective dismissal, lasts two years, from March 1st, 2009, to February 28th, 2011, and provides for the reduction of working hours and pay by 16%. The reduction in pay will be compensated, to the amount of 50%, by a specific indemnity distributed by National Institute for the Welfare of Italian Journalists (INPGI) which also provides for the accreditation of the tax credits due;

·

on October 15th, 2009, an agreement was signed with the national and territorial RSUs of TI Media, UILCOM UIL and FISTEL to raise the overall limit laid down by law for the maximum duration of the fixed-term contract from 36 to 63 months overall. The agreement has, moreover, regulated certain aspects on matters of hiring on fixed-term contracts.

Finally, as regards Telecom Italia Sparkle S.p.A., on October 29th, 2009, the new company organizational model was presented to the Trade Union Organizations and the agreement on collective holidays for 2010 was signed.

In Tim Brasil, the collective union agreements of 2009 are coherent with the current economic, political and juridical scenario of the country. The company has negotiated with the two Federations that represent all employees FITTEL and FENATTEL three agreements regarding: social and financial conditions, a profit-sharing program, compensation for hours worked. On the basis of these agreements, 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 period, the hours will be paid. In 2008, the reduction of the working week from 44 to 42 hours in 2009, and 40 hours a week in 2010, was agreed in negotiations. Finally, wages will be increased by 4.17% from July, 2010.

Remuneration policy

The policies of remuneration in 2009 were directed at ensuring competitiveness on the labor market, in line with the objectives of attracting, developing and fostering loyalty in the workforce, as well as pay differentials from the perspective of internal coherence and on the basis of shared, objective criteria.

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.

The essential elements of the stock option plans of Telecom Italia are summarized in the Note Stock option and Performance Share Granting Plans of the Telecom Italia Group.

SHAREHOLDERS

Financial communication

During 2009, the Company organized three-monthly conference calls, road shows abroad, meetings at the Group s institutional centers (reverse road shows) and participated in sector conferences. Around 300 investors were met during these events. In addition to these events, direct meetings and telephone conversations on a daily basis should be taken into account.

The responses to the financial market by the Group are based on the criteria of relevance, the sensitiveness of information, the congruence and topicality of the issues dealt with, regard to the organizational structure of the Group and the actions undertaken to achieve the targets of the Strategic Plan.

The financial communication also takes into consideration the needs of investors linked to Socially Responsible Investing (SRI) which favors companies that pay attention to ethical, social and environmental factors as well as financial aspects. The communication to this particular category of investor, administered in concert with the Group Sustainability department, is developed through individual contacts and participation at dedicated events. In 2009, a road show was organized in Frankfurt during which issues were touched on such as the extent of the planned investments for the development of the NGN (Next Generation Network) and the NGN2, and the environmental performance information concerning energy consumption, dematerialization and other sustainability indicators.

Regarding relations with individual shareholders (retail) today there are nearly 600,000 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. The indications and ideas that emerged from the dialogue with the retail investors were collected and communicated to top management.

The Shareholders Club, TI Alw@ys ON (www.telecomitaliaclub.it) 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 simply joining the Club allows members to obtain the same free services reserved to shareholders, among which are the SMS alert, the weekly Market Report and the three-monthly Newsletter.

In addition to these services, Telecom Italia offers shareholders the Guide for 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 on line financial communication, Telecom Italia s website (www.telecomitalia.it) is constantly updated with regular innovations. The Investor Relations section of the website has achieved a good placing again this year (3rd in Europe, 5th in Italy) in the classification drawn up by Hallvarsson & Halvarsson, the Swedish company that is the leader in on line financial communication.

Risk Management

To ensure a global approach to risk management and at the same time greater flexibility, in 2009 Telecom Italia Group launched a review of the Risk Management System previously used (the CRSA - Control & Risk Self Assessment), adopting a new integrated process of risk management inspired by the Enterprise Risk Management Framework (ERM)[1]. The ERM is an instrument of governance of company risk, through which the identification, assessment and management of risks is achieved.

At the heart of the system is the Committee of Group Risk Management which, in the new organizational model, from April 9th, 2009, is supervised and coordinated by the Head of the Administration, Finance and Control Department, which is made up of:

- the Managers of the , Domestic Market Operations , Technology & Operations and International Business departments;
- the Managers of the Departments General Counsel & Corporate and Legal Affairs , Administration, Finance and Control , Human Resources and Organization , Purchasing and Security ;
- the Manager of the Risk Management department of Administration, Finance and Control .

(1) Enterprise Risk Management, 2004 by the Committee of Sponsoring Organizations of the Treadway Commission.

The Head of the Risk Management Department carries out the role of supporting the coordination of the Committee.

The Committee meets every three months (or when specific needs arise) and aims to ensure the administration of the management of the risks of the Group, coordinating the preventative action plan designed to ensure the operational continuity of the business and monitoring the effectiveness of the counter measures adopted.

The new ERM approach is based on the assessment of the risk profile by management, both in relation to company processes and the strategic objectives. This approach provides the mapping of the risks and puts the focus on those held to be most important, the drawing up of a Master Plan of actions of mitigation and actions to handle the risks through the establishment of an interdepartmental work group selected by the Group Risk Management Committee.

In detail, the ERM process lays down four main phases: analysis; evaluation; treatment and verification; reporting.

The process is updated on an annual basis (or more frequently) at the discretion of the Risk Management Committee.

On December 31st, 2009, the Group s Corporate Risk Profile was defined (excluding Tim Brasil) which involves the completion of the analysis phase and part of the evaluation phase (risk assessment and allocation). Completion of the subsequent phases is expected in the next cycles.

In particular, in the 2009 cycle, attention was focused on a group of significant risks (the so-called TOP Risks) regarding which the definition phase of the Master Plan, treatment and verification, will be pursued.

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, 2009, 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-yearly financial report at June 30 and quarterly 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 level of the Business Units) 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 (1)

+/-

Share of losses (profits) of associates and joint ventures accounted for using the equity method (2)

EBIT - Operating profit

+/-

Impairment (reversals) losses 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)

Caption 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 level of the Business Units) 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 the years 2009 and 2008.

·

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. In this Report on Operations are included two tables showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group and the Parent, respectively.

In order to better represent the actual change in net financial debt, starting with the Half-Yearly 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. In fact, the volatility of interest rates and exchange rates that is a distinguishing feature of the financial markets starting from the fourth quarter of 2008 significantly impacted the fair value measurement of the derivative positions and the related financial assets and liabilities.

Report on Operations 2009

Telecom Italia Group

The new net financial debt measure will be used consistently and is also presented for the comparative data of previous periods.

Net financial debt is calculated as follows:

	+
Non-current financial liabilities	
	+
Current financial liabilities	
	+
Financial liabilities directly associated with Non-current assets held for sale	
	A)
Gross financial debt	
	+
Non-current financial assets	
	+
Current financial assets	
	+
Financial assets included in 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, General Managers 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 dated 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 2009 or a part of that year, have held the post of director, statutory auditor, general manager 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 2008 (or at date of appointment)	Number of shares purchased in 2009	Number of shares sold in 2009	Number of shares held at end of 2009 (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

Franco BERNABE

Telecom Italia S.p.A.

Ordinary

Savings

168,000[(1)]

180,000[(2)]

=

=

=

=

168,000[(1)]

180,000[(2)]

Cesar Izuel ALIERTA

=

=

=

=

=

=

Paolo BARATTA

Telecom Italia S.p.A.

Ordinary

345,000[(3)]

=

172,500[(3)]

172,500[(3)]

Tarak BEN AMMAR

=

=

=

=

=

=

Roland BERGER

Telecom Italia S.p.A.

Ordinary

Savings

562,500

700,000

=

=

=

=

562,500

700,000

Stefano CAO

=

=

=

=

=

=

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

Gianni MION

Telecom Italia S.p.A.

Ordinary

Savings

27,000[3]

35,000[3]

=

=

=

=

27,000[3]

35,000[3]

Renato PAGLIARO

Telecom Italia S.p.A.

Savings

60,000

=

=

60,000

Luigi ZINGALES

Telecom Italia S.p.A.

Ordinary

58,000

=

=

58,000

BOARD OF STATUTORY AUDITORS

Enrico Maria BIGNAMI

=

=

=

=

=

=

Paolo GOLIA

Telecom Italia S.p.A.

Ordinary

1,437

=

=

1,437

Gianluca PONZELLINI

=

=

=

=

=

=

Lorenzo POZZA

=

=

=

=

=

=

Salvatore SPINIELLO

=

=

=

=

=

=

Ferdinando SUPERTI FURGA

=

=

=

=

=

=

Gianfranco ZANDA

=

=

=

=

=

=

GENERAL MANAGERS(*)

KEY MANAGERS

Telecom Italia S.p.A.

Telecom Italia S.p.A.

Telecom Italia Media S.p.A.

Ordinary

Savings

Ordinary

37,132

55,484

48

=

=

=

=

=

=

37,132

55,484

48

(*) For Luca Luciani and Stefano Pileri, who during 2009 were both General Managers (up to February 27, 2009) and key managers (from February 27, 2009), the shares held are reported in the aggregate data for key managers.

(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 (Agreement concerning the international carriage of Dangerous goods by Road). Regulations on the transport by road of dangerous goods.

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.

CLG (Corporate Leaders Group) **EU CLG** The European Corporate Leaders Group, coordinated by Cambridge University.

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.

GRI. (Global Reporting Initiative)

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.

Telecom Italia Group

Consolidated Financial Statements at December 31, 2009

Contents

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Consolidated Statements of Financial Position

Assets

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Equity and liabilities

Separate Consolidated Income Statements

141

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Equity

Changes in equity in 2008 (Restated)

Changes in equity in 2009

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Consolidated Statements of Cash Flows

Additional cash flow information

145

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Note 1 Form, content and other general information

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. (Telecom Italia) and its subsidiaries (the Telecom Italia Group or the Group) operate mainly in Europe, the Mediterranean Basin and South America.

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

The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The consolidated financial statements of the Telecom Italia Group are expressed, unless otherwise indicated, in millions of euros, which is also the currency of the primary economies in which the Group operates.

Foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the Note Accounting policies .

The consolidated financial statements for the year ended December 31, 2009 of the Telecom Italia Group have been prepared on a going concern basis (further details are provided in the Note Accounting Policies) and in accordance with 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). The designation IFRS also includes all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**).

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In 2009, the Group applied the accounting policies on a basis consistent with previous years except for IFRS 3R (*Business Combinations*) and IAS 27R (*Consolidated and Separate Financial Statements*) that were early adopted and whose effects are described in the Note Accounting Policies .

For purposes of comparison, the consolidated statement of financial position at December 31, 2008 as well as the separate consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended December 31, 2008 have been presented in accordance with IAS 1 revised (*Presentation of Financial Statements*).

Moreover, as discussed in the Note Restatement for errors and changes in accounting policies , following certain adjustments and provisions for errors as defined by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) - made in connection with the Telecom Italia Sparkle case and due to the retrospective application, starting from January 1, 2009, of IFRIC 13 (*Customer Loyalty Programmes*) the comparative data of year 2008 has been appropriately adjusted and referred to as restated and the consolidated statement of financial position as of January 1, 2008 has also been presented. The effects of the adoption of IFRIC 13 are also described in the Note Accounting Policies .

Publication of the consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2009 was approved by resolution of the board of directors meeting held on April 12, 2010.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1 revised, which came into effect on January 1, 2009. In particular:

.

the consolidated statement of financial position has been prepared by classifying assets and liabilities according to current and non-current criterion;

.

the separate consolidated income statement has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;

.

the consolidated statement of comprehensive income includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;

.

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 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: losses/expenses deriving from the financial market crisis, 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

The operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic and Brazil) and according to the specific businesses for the other segments. Furthermore, as a result of including HanseNet Telekommunikation GmbH in Discontinued operations in the third quarter of 2009, the European BroadBand Business Unit is no longer presented. The other companies of that business unit have become part of Other Operations. However, the application of IFRS 8 has not required any changes in the disclosure by operating segment.

Furthermore, as a result of the application of IFRS 8, the term operating segment is considered synonymous with Business Unit .

The operating segments of the Telecom Italia Group are the following:

- **Domestic** Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the related support activities;

- **Brazil** Business Unit: includes telecommunications operations in Brazil;

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

- **Olivetti** Business Unit: includes activities for the manufacture of digital printing systems and office products;

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

For purposes of comparison, the disclosure by operating segment for the periods under comparison has been appropriately restated.

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Scope of consolidation

The changes in the scope of consolidation at December 31, 2009 compared to December 31, 2008 can be analyzed as follows:

Entry of companies in the scope of consolidation:

Company		Business Unit	Month
Intelig Telecomunicaçóes Ltda	new acquisition	Brazil	December 2009
H.R. Services S.r.l.	newly formed	Other Operations	June 2009

Exit of companies from the scope of consolidation:

Company

Business Unit

Month

Telecom Italia Lab S.A. (in liquidation)

liquidated

Other Operations

November 2009

Olivetti Austria GmbH (in liquidation)

liquidated

Olivetti

September 2009

Top Service S.p.A (in liquidation)

liquidated

Olivetti

September 2009

Giallo Viaggi.It S.r.l (in liquidation)

liquidated

Media

August 2009

Thinx.sm Telehouse Internet Exchange S.r.l. (in liquidation)

liquidated

Domestic

June 2009

Telecom Media News S.p.A.

controlling interest sold

Media

May 2009

Telemedia International USA Inc.

liquidated

Domestic

year 2009

Merger of companies:

Company

Business Unit

Month

Tim Nordeste S.A.	merged in Tim Celular S.A.	Brazil	December 2009

Moreover, in 2008, the Liberty Surf group (Liberty Surf Group S.A.S., Intercall S.A., Liberty Surf Network B.V. (in liquidation) and Telecom Italia S.A.S) were classified in Discontinued operations/Non-current assets held for sale . The sales transaction was finalized in August 2008.

A breakdown of subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2009 and December 31, 2008 is as follows:

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

12/31/2008

Companies:

Italy

Abroad

Total

subsidiaries consolidated line-by-line	33	70	103
joint ventures accounted for using the equity method	1	1	2
associates accounted for using the equity method	18	4	22
Total companies	**52**	**75**	**127**

(*) Including subsidiaries classified in Discontinued operations/Non-current assets held for sale.

Further details are provided in Note List of companies of the Telecom Italia Group .

Note 2 Accounting policies

Going concern

The consolidated financial statements for the year ended December 31, 2009 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future.

In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate doubts as to the Group s ability to continue as a going concern:

- the main risks and uncertainties to which the Group and the various activities of the Telecom Italia Group are exposed, are provided in the specific paragraph Principal risks and uncertainties in the Report on Operations under Business outlook for the year 2010 ;

- the measures adopted in terms of the mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, described in the paragraph devoted to the Share capital information under the Note Equity ;

- the identification, the analysis, the objectives and the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

Consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The closing date of all the subsidiaries financial statements coincides with that of the Parent, Telecom Italia.

Control exists when the Parent Telecom Italia, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in the equity and in the profit for the year 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.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 the total comprehensive loss (including the profit or loss for the 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 (information is provided below).

Before 2009, if losses attributable to non-controlling interests in a consolidated subsidiary exceeded the non-controlling interests in the subsidiary s equity, the excess was allocated against the equity interest attributable to the equity holders of the Parent.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated on consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. A that date, goodwill is recorded under intangible assets, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the balance sheet date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the disposal of the investment. The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated at the average exchange rates for the year.

In the context of IFRS first-time adoption, the cumulative exchange differences arising from the consolidation of foreign subsidiaries outside the eurozone was set at nil, as allowed by IFRS 1 (*First-time Adoption of International Financial Reporting Standards*); therefore, only accumulated exchange differences generated and recorded after January 1, 2004 are included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

The consolidated financial statements include the Group s share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstance ceases. When the Group s share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group s statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Before 2009, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the Group has applied the following accounting treatments (consistent with the Parent entity extension method):

.

acquisition of interests in companies after control is obtained: on acquisition, the Group pays a consideration to the non-controlling interests and adjusts the non-controlling and controlling interests and records a Goodwill equal to the excess of the consideration paid over the carrying amount of the corresponding portion of assets and liabilities acquired;

.

sale of interests in companies where control is retained: the difference between the consideration received and the corresponding carrying amount in the consolidated financial statements is recognized in the separate income statement.

As far as *intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership*, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 *(Accounting Policies, Changes in Accounting Estimates and Errors*), the Group has applied the following accounting treatment: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. Equity attributable to the non-controlling interests which does not directly take part in the transaction is adjusted to reflect the change with a corresponding opposite effect on the equity attributable to the owners of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

Intangible assets

Goodwill

Following the early adoption of IFRS 3R (*Business Combinations*), which was applied prospectively, starting with the consolidated financial statements for the year ended December 31, 2009, goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

a)

the aggregate of:

-

the consideration transferred (measured in accordance with IFRS 3R; it is generally recognized on the basis of the acquisition date fair value);

-

the amount of any non-controlling interest in the acquiree measured, as allowed, at the non-controlling interest s proportionate share of the acquiree s identifiable net assets;

-

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 3R requires, *inter alia*, the following changes:

.

incidental costs incurred in connection with a business combination are charged to the separate income statement, while they were previously included in the consideration paid;

.

in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate income statement, with a consequent effect on goodwill. Previously, the amount of goodwill was determined on the basis of the fair value of the net assets acquired at the date of each transaction.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill is initially recorded at cost and is subsequently reduced only for impairment losses. 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.

Until December 31, 2008, goodwill was recorded as the excess of the cost of acquisition over the Group s interest in the fair value of those assets and liabilities acquired.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset s future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate income statement prospectively.

For a small portion of bundled offerings, principally of mobile equipment and services, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

.

the capitalized costs can be measured reliably;

.

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 minimum period of the underlying contract (12 or 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

Tangible assets

Property plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at January 1, 2004, at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized when the obligation arises in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. The effects of this recalculation, if any, are recognized with an offsetting entry to tangible assets up to their carrying amount and for the excess to the separate income statement.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

Since there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate income statement on a straight-line basis over the lease term.

Impairment of intangible and tangible assets

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows generally cover a period of three years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with a finite useful life

At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the separate income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate income statement.

Financial instruments

In the context of IFRS first-time adoption, the Group elected to anticipate the adoption of IAS 32 (*Financial Instruments: Presentation*) and IAS 39 (*Financial Instruments: Recognition and Measurement*) at January 1, 2004. Furthermore, as allowed by IFRS 1, the designation of a financial instrument as a financial asset at fair value through profit or loss or available-for-sale or a financial liability measured at fair value through profit or loss was made at January 1, 2004 instead of at the date of initial recognition.

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group s portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets;
- 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.

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

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 securities other than investments classified as available-for-sale are recognized in an equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate income statement.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported previously.

Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Compound financial instruments represented by bonds convertible into shares of the issuer are recognized by splitting the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount, computed as the difference between the fair value of the debt and the proceeds raised on the issue of the financial instrument, is recorded in a specific equity reserve (Other equity instruments).

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a)

at the inception of the hedge, the hedging relationship is formally designated and documented;

b)

the hedge is expected to be highly effective;

c)

its effectiveness can be reliably measured;

d)

the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

.

Fair value hedge Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate income statement.

.

Cash flow hedge Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time as the hedged transaction affects the separate income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate income statement.

Sales of receivables

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

Amounts due from customers on construction contracts

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate income statement when they become known.

Inventories

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

Discontinued operations/Non-current assets held for sale

Discontinued operations/Non-current assets held for sale include lines of business and assets (or groups of assets) sold or to be disposed of, whose carrying amount was or will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

In accordance with IFRS, Discontinued operations/Non current assets held for sale are presented in the financial statements as follows:

.

in two lines on the statement of financial position: Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale;

.

in one line on the separate income statement: Profit (loss) from Discontinued operations/Non-current assets held for sale.

Employee benefits

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations. As allowed by IFRS 1 and IAS 19, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the separate income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability, 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, the 2007 Italian Budget Law and the decrees implementing this law introduced significant changes to employee severance indemnity regulations, including the choice as to the possible destination of accruing employee severance indemnity either to supplementary pension funds or to the Treasury fund managed by INPS.

Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of Defined contribution plans whereas the amounts recorded in the provision for employee severance indemnities retain the nature of Defined benefit plans .

Equity compensation plans

The companies of the Group provide additional benefits to certain managers and employees of the Group through equity compensation plans (stock options and performance share grants). The stock option plans starting from January 1, 2005 and the performance share granting plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

As allowed by IFRS 1, the Group did not apply IFRS 2 to stock option plans granted before November 7, 2002, as the terms and conditions of such plans had not changed.

In accordance with IFRS 2, employee stock options and performance share grants are measured at fair value at the grant date using models that take account of circumstances and factors applicable at the grant date (for instance, for the stock options: option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).

If the right vests over a certain vesting period and, depending on the circumstances, also when certain vesting conditions are satisfied, the total value is allocated over the vesting period and recorded in an equity reserve under Other equity instruments , with a contra-entry to the separate income statement under Employee benefits expenses .

At the end of each year, the originally measured fair value of each right is not adjusted or updated. However, at that date, adjustments are made to the estimate of the number of rights that will vest up to expiry (and therefore the number of employees who will have option exercise rights or receive shares, as a result of remaining, for example, in service over the vesting period). The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses .

Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate income statement.

Revenues

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

.

Revenues from services rendered

Revenues from services rendered are recognized in the separate income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.
Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.
Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.
Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers).
Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

.

Revenues from sales and bundled offerings

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

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

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

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

.

Revenues on construction contracts

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

Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the separate income statement in the year in which they are incurred.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group, including relative incidental expenses of a non-financial nature (e.g. penalties); the relative interest expenses are recognized under Finance expenses .

Income taxes are recognized in the separate income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves.

The income tax expense that could arise on the remittance of a subsidiary s retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred taxes are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate income statement in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group s profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group s profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the conversion of bonds and the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

Use of estimates

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

Financial statement

line item/area

Accounting estimates

Goodwill

The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in 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 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.

Accruals, contingent liabilities and employee benefits

As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.

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;

.

the estimate of the fair value of each component of bundled offerings.

Income taxes

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

Derivative instruments and equity instruments

The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

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

Correction of errors

IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) provides for, among other things, the recognition and disclosure of prior year errors. According to this standard, errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Material errors, with respect to their size and the circumstances that caused them, shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

.

restating the comparative amounts for the prior years presented in which the error occurred; or

.

restating the opening balances of assets, liabilities and equity for the earliest prior year presented if the error occurred before the earliest prior year presented.

Retrospective restatement corrects the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior year error had never occurred.

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

New Standards and Interpretations adopted by the EU and in force from January 1, 2009

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2009 are reported below and briefly summarized.

IFRS 8 (*Operating Segments*)

On November 21, 2007, Commission Regulation (EC) 1358-2007 was published endorsing the amendment to the standard.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments for which discrete financial information is available and whose operating results are reviewed regularly by the entity s Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance. Financial information is to be presented on the same basis as that used for internal reporting to the CODM. IFRS 8 supersedes IAS 14 (*Segment Reporting*). The adoption of this standard did not involve any changes in the disclosure related to the operating segments.

Amendments to IAS 23 (*Borrowing Costs*)

On December 10, 2008, Commission Regulation (EC) 1260-2008 was published endorsing the amendments to the standard.

The main amendment to IAS 23 removes the option, allowed in the previous version of the standard, of immediately recognizing borrowing costs as an expense in the period incurred (the treatment adopted by the Telecom Italia Group), rather than capitalizing them.

The revised IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for use or sale to be capitalized as part of the cost of such assets. The adoption of this standard did not have any effect on the consolidated financial statements at December 31, 2009.

Amendments to IFRS 2 (*Share-Based Payment*)

On December 16, 2008, Commission Regulation (EC) 1261-2008 was published endorsing the amendments to the standard.

The standard clarifies the definition of vesting conditions and specifies the cases in which a condition that is not satisfied will result in the recognition of a cancellation of the award granted. The amendments did not have any impact on the consolidated financial statements at December 31, 2009.

IFRIC 13 (***Customer Loyalty Programmes***)

On December 16, 2008, Commission Regulation (EC) 1262-2008 was published endorsing IFRIC 13.

This interpretation addresses general accounting guidelines for customer loyalty programmes. Such interpretation is characterized by the following elements:

.

loyalty award credits granted to a customer are considered a separately identifiable element of the original sales transaction of the product or service itself and represent rights granted to the customer, for which the customer implicitly paid;

.

the amount of sales proceeds allocated to the loyalty award credits is measured by reference to their fair value (that is, the amount for which the award credits could have been sold separately). The entity recognizes the deferred portion of the proceeds as revenue only when it has fulfilled its obligations.

IFRIC 13 was accounted for retrospectively in accordance with IAS 8 and led to the restatement of the separate consolidated income statement, consolidated statement of comprehensive income and the consolidated statement of cash flows for the year ended December 31, 2008 in addition to the consolidated statement of financial position at January 1, and at December 31, 2008 (for further details, please see Note "Restatement for errors and changes in accounting policies).

Amendments to IAS 1 (*Presentation of Financial Statements*)

On December 17, 2008, Commission Regulation (EC) 1274-2008 was published endorsing the amendments to IAS 1.

The main changes introduced provide for:

.

the presentation in the statement of changes in equity of the details related only to the owner changes in equity;

.

the presentation of all non-owner changes in equity in two statements (approach adopted by Telecom Italia):

a statement (Separate income statement) displaying components of profit (loss) for the year;

a statement (Statement of comprehensive income) beginning with profit (loss) for the year and displaying components of other comprehensive income.

Amendments to IAS 32 (*Financial Instruments: Presentation*) and IAS 1 (*Presentation of Financial Statements*)

On January 21, 2009, Commission Regulation (EC) 53-2009 was published endorsing the amendments to these standards.

The amendments to IAS 32 require, when certain conditions are met, that certain puttable financial instruments or obligations arising on liquidation should be classified as equity. The amendments to IAS 1 require disclosure of specific information about those instruments. The adoption of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

IFRIC 16 (***Hedges of a Net Investment in a Foreign Operation***)

On June 4, 2009, Commission Regulation (EC) 460-2009 was published endorsing the interpretation.

This interpretation eliminates the possibility of applying hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent s consolidated financial statements. Moreover, the interpretation clarifies that in a hedge of a net investment in a foreign operation the hedging instrument may be held by any company within the group. The adoption of this interpretation did not have any effect on the consolidated financial statements at December 31, 2009.

Amendments to IFRIC 9 (*Reassessment of Embedded Derivatives*) and IAS 39 (*Financial Instruments: Recognition and Measurement*): embedded derivatives

On November 27, 2009, Commission Regulation (EC) 1171-2009 was published endorsing the interpretation and the amendments to the standard.

The amendments to IFRIC 9 and IAS 39 allow entities to reclassify certain financial instruments out of the fair value through profit or loss category in specific circumstances. The amendments clarify that on the reclassification of a financial asset out of the fair value through profit or loss category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The adoption of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

Amendments to IFRS 7 (*Financial Instruments: disclosures*)

On November 27, 2009, Commission Regulation (EC) 1165-2009 was published endorsing the amendment to the standard.

The amendments require, for every category of financial instrument measured at fair value, an indication of the methods and valuation techniques adopted. For this purpose, a three-level hierarchy has been introduced: (level 1: quoted prices; level 2: inputs derived from observable market data; level 3: inputs that are not based on observable market data).

Amendments have also been made to the liquidity risk disclosures. The adoption of these amendments did not have any effect on the consolidated financial statements at December 31, 2009.

IFRIC 18 (*Transfer of Assets from Customers*)

On November 27, 2009, Commission Regulation (EC) 1164-2009 was published endorsing IFRIC 18.

This interpretation applies to the accounting for transfers of items of property, plant or equipment by entities that receive such transfers from their customers and that the entity must then use to connect the customer to a network to provide the same goods or services. If the transferred item is controlled by the entity, it should be measured at fair value on initial recognition in property, plant and equipment. The interpretation also applies to cash received by entities from clients that must be used only to construct the asset.

The related revenues should be recognized over the terms of the contract agreed with the client to supply the

goods or services or, if the date is not specified, over a period no longer than the estimated useful life of the asset. IFRIC 18 shall be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The application of this interpretation did not have any effect on the consolidated financial statements at December 31, 2009.

Improvements to IFRS issued by IASB in 2008

On January 23, 2009, Commission Regulation (EC) 70-2009 was published endorsing the improvements to the following standards that are in force from January 1, 2009.

.

IAS 1 (*Financial Statement Presentation*): assets and liabilities arising from derivative financial instruments that are not held for trading and that are not financial guarantee contracts or designated hedging instruments should be presented as either current or non-current assets and liabilities, according to their settlement date;

.

IAS 16 (*Property, Plant and Equipment*): the amendment provides clarification on the classification and accounting treatment for an entity that, in the course of the ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others;

.

IAS 19 *(Employee Benefits)*: the amendment clarifies the treatment for changes in employee benefits, defines recognition for cost and income relating to past service cost and revises the distinction between short-term and long-term employee benefits, and must be applied prospectively;

.

IAS 20 (*Accounting for Government Grants and Disclosure of Government Assistance*): the amendment states that the benefit of a government loan at a below-market interest rate should be treated as a government grant, and must be applied prospectively;

.

IAS 23 (*Borrowing Costs*): the amendment consists in a better definition of borrowing costs;

.

IAS 28 (*Investments in Associates)*: the amendment clarifies that where investments in associates are accounted for by the equity method, any impairment loss should not be allocated to specific assets (and, in particular, to any goodwill) included within the carrying amount of the investment in the associate, but, rather, to the investment as a whole. Accordingly, where there are conditions for a subsequent reversal, such impairment reversal is recognized in full;

.

IAS 36 (*Impairment of Assets*)*:* this amendment requires additional disclosure if fair value less costs to sell is determined using discounted cash flow projections;

.

IAS 38 (*Intangible Assets*)*:* the amendment requires that when an entity incurs costs providing future economic benefits, but no intangible assets are recognized, such costs should be recognized as expenses when incurred, meaning when the entity receives the related goods or services. Moreover, an amendment to the standard allows entities to use the Unit of Production Method to calculate the amortization charge on an intangible asset with a finite useful life;

.

IAS 39 (*Financial instruments: Recognition and Measurement*)*:* the amendment clarifies how to calculate the revised effective interest rate on a financial instrument on cessation of fair value hedge accounting and also specifies the cases in which it is possible for there to be movements into and out of the fair value through profit or loss category.

The application of *Improvements to IFRS* (*issued by IASB in 2008*) did not have any effect on the consolidated financial statements at December 31, 2009.

New Standards and Interpretations endorsed by the EU but not yet in force and early adopted

IFRS 3R (*Business Combinations*) and IAS 27R (*Consolidated and Separate Financial Statements*)

On June 3, 2009, Commission Regulations (EC) 494-2009 and 495-2009 were published endorsing the revised versions of IFRS 3R and IAS 27R.

IFRS 3R introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27R requires that a change in a parent s ownership interest in a subsidiary that does not result in loss of control be accounted for as an equity transaction, clarifies the accounting treatment in the event of the loss of control in a subsidiary and requires that the investors losses share in a non-controlling interest be allocated to the non-controlling interest even if this results in a deficit.

The changes introduced by IFRS 3R and IAS 27R must be applied prospectively starting from January 1, 2010. However, following the acquisition of the entire stake in the Brazilian telecommunications company Intelig Telecomunicações Ltda at the end of December 2009, by means of the merger of Holdco Participações Ltda (the parent company of Intelig) into Tim Participações S.A., Telecom Italia has decided, as allowed, to early adopt such amendments starting from the 2009 financial statements. The early adoption of such amendments (in particular of IAS 27R) resulted in the recognition in equity, instead of the separate income statement, of the capital gain realized on the partial sale (without loss of control) of Tim Participações S.A. for a total amount of 47 million euros. Moreover, the adoption of these amendments resulted in an effect on the earnings per share for the year 2009 of less than 0.01 euros.

New Standards and Interpretations endorsed by the EU but not yet in force

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force from January 1, 2010 are reported below and briefly summarized.

Amendments to IAS 39 (***Financial Instruments: Recognition and Measurement Eligible hedged items***)

On September 15, 2009, Commission Regulation (EC) 839-2009 was published endorsing some amendments to IAS 39 which clarifies certain aspects of hedge accounting:

- identifying the cases in which inflation may be a hedged risk;
- specifying that only the intrinsic value, not the time value, of an option can be designated as a hedge of one or some risks of a hedged item (that is, a one-sided risk).

The amendments are effective beginning January 1, 2010 and must be applied retrospectively in accordance with IAS 8.

The application of these amendments is not expected to have a material impact on the consolidated financial statements.

IFRIC 17 (*Distribution of Non-cash Assets to Owners)*

On November 26, 2009, Commission Regulation (EC) 1142-2009 was published endorsing IFRIC 17.

This interpretation provides guidelines on the accounting treatment for the distribution of non-cash assets to shareholders. In particular, the interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity should recognize the difference between the dividend paid and the carrying amount of the net assets used for payment in the separate income statement.

IFRIC 17 is effective beginning January 1, 2010 and must be applied prospectively.

The application of this interpretation is not expected to have any effect on the consolidated financial statements.

Amendments to IAS 32 (*Classification of Rights Issues*)

On December 23, 2009, Commission Regulation (EC) 1293-2009 was published endorsing 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 IFRS 2 (Group Cash-settled Share-based Payment Transactions)

On March 23, 2010, Commission Regulation (EC) 244-2010 was published endorsing the amendments to 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 amendments are effective from January 1, 2010. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

Improvements to IFRS (issued by IASB in 2008)

On December 23, 2009, Commission Regulation (EC) 70-2009 was published endorsing, *inter alia*, some improvements to IFRS 5 (*Non-current assets held for sale and discontinued operations*). The amendment clarifies that all of a subsidiary s assets and liabilities are classified as held for sale if an entity s disposal sale plan results in loss of control, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

The amended IFRS 5 is effective from January 1, 2010.

The application of these *Improvements to IFRS (issued by IASB in 2008)* is not expected to have any effect on the consolidated financial statements.

Improvements to IFRS (issued by IASB in 2009)

On March 23, 2010, Commission Regulation (EC) 243-2010 was published endorsing the improvements to the following standards, in force from January 1, 2010:

.

IFRS 2 *(Share-based Payment)*

These amendments clarify that following the changes made by IFRS 3R to the definition of a business combination, the contribution of a business on the formation of a joint venture and the combination of entities or businesses under common control do not fall within the scope of IFRS 2.

.

IFRS 5 *(Non-current Assets Held for Sale and Discontinued Operations)*

This amendment, which shall be applied prospectively, clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

.

IFRS 8 *(Operating Segments)*

The amendment to IFRS 8 clarifies that an entity shall report a measure of total assets for each reportable segment only if such an amount is regularly provided to the Chief Operating Decision Maker. Before, this information was required, in any case, for each reportable segment.

.

IAS 1 *(Presentation of Financial Statements)*

This amendment clarifies that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, even if, at the option of the counterparty, the terms of a liability could result in its settlement by the issue of equity instruments.

.

IAS 7 *(Statement of Cash Flows)*

The amendment clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

.

IAS 17 *(Leases)*

The amendment refers to the classification of leases of land and buildings. When a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. At the date of adoption the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognized retrospectively.

.

IAS 36 *(Impairment of Assets)*

The amendments refer to the allocation of goodwill to cash-generating units (or groups of cash-generating units) of an acquirer in a business combination or for purposes of impairment testing. In particular, the amendments clarify that each unit or group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by IFRS 8 (Operating Segments) before aggregation.

.

IAS 39 *(Financial Instruments: Recognition and Measurement)*

The main amendments, to be applied prospectively to all unexpired contracts, are as follows:

-

within the scope of IAS 39, the clarification about the exclusion of any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date;

-

as regards accounting for an embedded derivative separately from the host contract, the following clarification regarding the prepayment option embedded in a host debt contract

was introduced: in the case in which the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract, such option shall be considered closely related to the host contract and therefore not accounted for separately.

.

IFRIC 9 *(Reassessment of Embedded Derivatives)*

This amendment, applicable prospectively, excludes from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture.

.

IFRIC 16 *(Hedges of a Net Investment in a Foreign Operation)*

The amendments refer to the removal of the prohibition to use a derivative held by the foreign operation being hedged as a hedge of the net investment in that foreign operation.

The application of the Improvements to IFRS (2009) is not expected to have a material impact on the Company s consolidated financial statements.

Note 3 Restatement for errors and changes in accounting policies

Restatement as a result of errors

The ongoing criminal investigation involving Telecom Italia Sparkle, and the Rome court Order issued in relation to this investigation (the Order) which was served on the company on February 23, 2010 - for further details please see Note Contingent liabilities, other information, commitments and guarantees - alleges that a number of former directors, former employees and current employees of Telecom Italia Sparkle committed crimes of cross-border criminal conspiracy, tax evasion, international money-laundering, reinvestment of profits from criminal activities, and registering assets under false names. The crimes of a cross-border criminal conspiracy, international money-laundering and reinvestment of profits from criminal activities are offenses that may entail administrative liability for a corporation under the Legislative Decree 231/2001.

As part of the proceedings, the Rome Judge issued a seizure order for 298 million euros, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation. A hearing was scheduled in chambers to discuss the request for the appointment of an Administrator for Telecom Italia Sparkle pursuant to Legislative Decree 231/01. On April 6, 2010, the Preliminary Investigations Judge cancelled this hearing as there were no longer any grounds to proceed on this matter.

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

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

Internal investigation 2007

In November 2006, the Rome Judge interviewed a number of Telecom Italia Sparkle officials, directors and employees as witnesses with knowledge of the facts with regard to an investigation on a VAT fraud alleged to have been committed by a number of Italian telecommunications operators, including the clients and suppliers identified in the Order. Subsequently, in January 2007 Telecom Italia Sparkle launched an internal investigation into contracts and commercial relations with these particular clients and suppliers. On completion of the internal investigation, which was undertaken with the assistance of independent tax consultants, in June 2007 commercial relations with the above-mentioned parties were terminated for precautionary reasons. As part of the investigation, Telecom Italia assessed its VAT position and particularly the tax paid with regard to the above-mentioned commercial transactions. On the basis of information available at the time, the conclusion of the investigation was that deduction of VAT on these purchases was appropriate.

Subsequent elements

Analyses and information acquired since the Order have provided additional elements for assessment of the events under investigation and the analysis undertaken in the past, adding previously unknown information which has become available through investigations undertaken by the Rome Prosecutors, using their specific powers and faculties.

Internal investigation 2010

Subsequent to the issue of the Order, the company appointed independent legal, accounting and tax advisors to undertake a documentary investigation into activities between 2005 and 2009. The advisers analysis focused on contracts and relations maintained by Telecom Italia Sparkle other than those covered under the Order, referring in particular to counterparties other than major telecommunications carriers and other Telecom Italia Group companies, concentrating on traffic data and associated revenues, costs and payments. The Corporate Organs were informed about the extent and results of this analysis.

Restatement

Drawing upon further information available under the Order, along with data acquired as part of the 2010 internal investigation, Telecom Italia concluded that a number of transactions in the financial years 2005, 2006 and 2007 were affected by certain anomalies regarding the actual existence of the transactions and traffic, in addition to the progress and routing of traffic itself, to such an extent that the company now believes that these operations were subject to errors as defined under IAS 8.

Therefore, in compliance with IAS 8, and without acknowledging any liability whatsoever, the company is restating the revenues and costs recorded in 2005, 2006 and 2007 for these operations as follows:

2005-2007: adjustment of revenues and costs for the transaction identified; the surplus of revenues over costs has been adjusted and recognized against provisions for risks and charges under Trade and miscellaneous payables and other current liabilities in regard to legal risks and charges connected with this matter;

2005-2007: provisions for risks and charges included under Trade and miscellaneous payables and other current liabilities for further tax risks and charges;

2005-2009: provisions for risks and charges concerning legally-applicable interest associated with the above provisions, for the year to which they apply.

After making these adjustments and provisions, the data for the 2008 financial year used in comparisons (including the statement of financial position as at January 1, 2008) have been restated. The total amount set aside in provision for risks and charges, recognized against Equity attributable to owners of the Parent, amounts to 487 million euros as at January 1, 2008, 497 million euros as at December 31, 2008, and 507 million euros as at December 31, 2009.

The adjustments and provisions made are summarized as follows:

(million of euros)	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
.						
Adjustment to Revenues and Other income	(323)	(754)	(168)	-	-	(1,245)

.

Adjustment to Acquisition of goods and services

311

707

155

-

-

1,173

.

Other operating expenses (Provision charges for indirect taxes (VAT) and fines)

(77)

(256)

(70)

-

-

(403)

IMPACT ON EBITDA AND EBIT

(89)

(303)

(83)

-

-

(475)

.

Finance expenses (Provision charges for interest on VAT)

-

(4)

(8)

(10)

(10)

(32)

IMPACT ON PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT

(89)

(307)

(91)

(10)

(10)

(507)

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

(million of euros)

12/31/2005

12/31/2006

12/31/2007

12/31/2008

12/31/2009

IMPACT ON EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

(89)

(396)

(487)

(497)

(507)

Trade and miscellaneous payables and other current liabilities (Provisions for risk and charges)(1)

89

396

487

497

507

IMPACT ON TOTAL CURRENT LIABILITIES

89

396

487

497

507

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

Restated adjusted data are as follows:

(million of euros)

2005

2006

	2007	**2008**	**2009**		
Revenues	29,193	29,785	29,802	29,000	27,163
Total operating revenues and other income	**29,861**	**30,358**	**30,185**	**29,336**	**27,445**
Acquisition of goods and services	(12,253)	(12,876)	(13,442)	(13,120)	(11,480)
Other operating expenses					

(1,524)

(1,769)

(2,268)

(1,631)

(1,616)

EBITDA

12,468

12,498

11,295

11,090

11,115

EBIT

7,548

7,269

5,738

5,437

5,493

Finance income (expenses)

(2,058)

(2,191)

(2,183)

(2,611)

(2,170)

Profit for the year

3,601

2,696

2,360

2,178

1,596

Attributable to owners of the Parent

shareholders

3,127

2,707

2,353

2,177

1,581

(million of euros)

12/31/2005

12/31/2006

12/31/2007

12/31/2008

12/31/2009

Equity attributable to owners of the Parent
25,573
25,622
25,431
25,598
25,952

Restatement as a result of changes in accounting policies IFRIC 13 (Customer Loyalty Programmes)

As described in Note Accounting Policies , IFRIC 13 was accounted for retrospectively in accordance with IAS 8 and led to the restatement of the separate consolidated income statement and the consolidated statement of cash flows for the years ended December 31, 2008 and 2007 in addition to the consolidated statement of financial position at December 31, 2008 and at December 31, 2007. Such restatement is related to the Domestic operating segment only.

The application of IFRIC 13 led to: a decrease in revenues mainly in reference to the deferral of the component relating to customer award credits granted and an increase in acquisition of goods and services correlated to the redemption of awards and a consequent reduction in the tax charge. In the consolidated statement of financial position, this Interpretation led to the recognition of higher current liabilities, mainly correlated to the deferral of revenues, the recognition of deferred tax assets and a consequent reduction in equity.

* * *

The following tables reflect the impacts on the prior year s financial statement line items of the accounting adjustments for errors as defined by IAS 8 in connection with the Telecom Italia Sparkle case and the retrospective application of IFRIC 13.

	2008			
(millions of euros)	Historical	**Errors**	**Impact IFRIC 13**	**Restated**
Revenues	29,042	-	(42)	29,000
Other income	336	-	-	336
Acquisition of goods and services	(13,116)	-		

(4)

(13,120)

Other operating expenses

(1,638)

-

7

(1,631)

OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)

11,129

-

(39)

11,090

OPERATING PROFIT (EBIT)

5,476

-

(39)

5,437

Finance expenses

(6,349)

	(10)
	-
	(6,359)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**2,943**
	(10)
	(39)
	2,894
Income tax expense	(689)
	-
	12
	(677)
PROFIT FROM CONTINUING OPERATIONS	**2,254**
	(10)
	(27)
	2,217
PROFIT (LOSS) FOR THE YEAR	**2,215**
	(10)
	(27)
	2,178

Attributable to:

*** Owners of the Parent**

2,214

(10)

(27)

2,177

* Non-controlling interests

1

-

-

1

1/1/ 2008

12/31/ 2008

(millions of euros)

Historical

Errors

	Impact IFRIC 13	Restated	Historical	Errors	Impact IFRIC 13	Restated
Deferred tax assets	247	-	3	250		
	987	-	15	1,002		
TOTAL NON-CURRENT ASSETS	**70,688**	**-**	**3**	**70,691**		

70,942

-

15

70,957

TOTAL ASSETS

87,425

-

3

87,428

85,635

-

15

85,650

EQUITY

Other reserves and retained earnings (accumulated losses), including profit for the year
13,628
(487)
(4)
13,137
13,846
(497)
(31)
13,318

Equity attributable to owners of the Parent
25,922
(487)
(4)
25,431
26,126
(497)
(31)
25,598
Non-controlling interests
1,063
-
-
1,063
730
-
-
730
TOTAL EQUITY
26,985

(487)
(4)
26,494
26,856
(497)
(31)
26,328

Trade and miscellaneous payables and other current liabilities

12,380
487
7

12,874

10,896

497

46

11,439

TOTAL CURRENT LIABILITIES

19,162

487

7

19,656

18,423

497

46

18,966

TOTAL LIABILITIES

60,440

487

7

60,934

58,779

497

46

59,322

TOTAL EQUITY AND LIABILITIES

87,425

-

3

87,428

85,635

-

15

85,650

The adoption of the IFRIC 13 and the accounting adjustments made to correct the errors as defined by IAS 8 identified in connection with the Telecom Italia Sparkle case had an effect on the basic and diluted earnings per share in 2008 and in 2007 of less than 0.01 euros.

Note 4 Business combinations

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. That company has been consolidated in the Telecom Italia Group as from the same date.

Specifically, the purchase transaction, through the merger by incorporation of the parent, which owns 100% of Intelig (Holdco Participaçoes, controlled by JVCO), in Tim Participaçoes, had begun on April 16, 2009 by sealing agreements between Tim Participaçoes, its parent Tim Brasil and JVCO Participaçoes (controlled by the Docas group and the indirect parent of Intelig Telecomunicações Ltda).

The finalization of the transaction was subject to a series of conditions including approval by the Brazilian National Regulatory Agency (Anatel) which was obtained on August 16, 2009. The Antitrust Authority was also notified of the transaction and its analysis is still underway.

The purchase, through the merger transaction, was finalized on December 30, 2009 by assuming a financial debt of Intelig equal to USD 68 million. At the time of the merger, the seller was attributed JVCO shares equal to 5.14% of Tim Participaçoes ordinary and preferred share capital. Moreover, 3% of Docas ordinary shares were transferred to Tim Brasil to guarantee Intelig s financial situation to meet its potential liabilities.

The accounting effects of the business combination are represented by the following:

.

Goodwill of 96 million euros has been determined provisionally as the difference between the market value of the shares issued on behalf of the seller as of December 30, 2009 (295 million euros) and the carrying amount of the net assets acquired (199 million euros). During 2010 (and in any case within 12 months following the transaction), the provisional amounts of the assets and liabilities recorded at the acquisition date will be adjusted retroactively to take into account their fair value at the acquisition date with the consequent re-determination of the value of goodwill;

.

the transaction led to the partial sale (dilution), without loss of control, of a portion of the investment held by the Group in Tim Participações S.A.. Following the early application of IFRS 3R and IAS 27R, the comparison between the stock market valuation of the shares issued on behalf of the seller and the net assets sold led to recognition in equity of a gain of 47 million euros, including 39 million euros for the reclassification, to equity attributable to non-controlling interests, of the transferred portion of the Reserve for exchange differences on translating foreign operations.

Intelig Telecomunicações Ltda Data at December 30, 2009

(millions of euros)

Fair value

Carrying amount

Goodwill

96

-

Other non-current assets

272

272

Total current assets

131

131

Total assets

(A)

499

403

Total non-current liabilities

62

62

Total current liabilities	142	142
Total liabilities (B)	**204**	**204**
Net assets acquired (A-B)	**295**	**199**

Had the purchase transaction been completed as of January 1, 2009, the consolidated financial statements of the Telecom Italia Group would have presented higher revenues of 223 million euros and a lower operating profit (EBIT) by 17 million euros.

Year 2008

In 2008, there were no transactions entered into of the type of business combinations defined in IFRS 3.

Note 5 Goodwill

Details of goodwill by business segment and the changes during 2008 and 2009 are presented in the following tables:

(millions of euros)

12/31/2007

Discontinued Operations

Increase

Decrease

Exchange differences

Reclassifications

12/31/2008

Domestic	**41,953**	
	41,953	
Brazil	**1,295**	
	(257)	
	1,038	
European BroadBand	**942**	
	(249)	

(21)

672

Media

230

(2)

228

Total

44,420

(249)

-

(23)

(257)

-

43,891

(millions of euros)

12/31/2008

	Discontinued Operations	Increase	Decrease	Exchange differences	Reclassifications	12/31/2009
Domestic						**41,953**
						41,953
Brazil						**1,038**

	96
	307
	1,441
European BroadBand(*)	
	672
	(661)
	(11)
	-
Media	
	228
	228
Other Operations (*)	
	-

(6)

11

5

Total

43,891

(661)

96

(6)

307

-

43,627

(*) Following the inclusion of HanseNet in Discontinued operations, the European BroadBand Business Unit is no longer presented; the other companies of that Business Unit have become part of Other Operations.

The reduction of 264 million euros in 2009 is due to the following:

.

-661 million euros for the reclassification of goodwill allocated to HanseNet to Discontinued operations/Non-current assets held for sale;

.

-6 million euros for the impairment loss, carried out on the basis of the impairment test s results, of the goodwill attributed, within Other operations, to the consolidated company BBNed;

.

+96 million euros for the acquisition of Intelig Telecomunicações Ltda;

.

+307 million euros for exchange differences relating to the goodwill of the Brazilian companies.

The goodwill of the Domestic Business Unit at December 31, 2009 includes 421 million euros relating to the International Wholesale cash-generating unit.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units - CGU) to December 31, 2009 and 2008 can be summarized as follows:

	12/31/2009			**12/31/2008**		
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**

Domestic	(*)42,245	(*)(292)	**41,953**	(*)42,245	(*)(292)	**41,953**
Brazil	1,448	(7)	**1,441**	1,045	(7)	**1,038**
European BroadBand[(**)]	-	-	**-**	693	(21)	**672**
Media	228	-				

	228
	228
	-
	228
Olivetti	
	6
	(6)
	-
	6
	(6)
	-
Other Operations(**)	
	11
	(6)
	5
	-
	-
	-
Total	
	43,938
	(311)
	43,627
	44,217
	(326)
	43,891

(*) Includes 282 million euros relating to the settlement with De Agostini in 2004.

(**) Following the inclusion of HanseNet in Discontinued operations, the European BroadBand Business Unit is no longer presented; the other companies of that Business Unit have become part of Other Operations.

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. To test for impairment, goodwill must be allocated to cash-generating units (CGUs) or groups of CGUs according to the maximum aggregation limit which cannot exceed the operating segment in accordance with IFRS 8. Since the Group has adopted a new customer centric organization in the Domestic segment, replacing the previous organization based on the distinction by fixed and mobile technology, goodwill of the CGUs/groups of CGUs which form the Domestic segment was reallocated on the basis of the relative values of the new CGUs/groups of CGUs at January 1, 2009 under IAS 36, paragraph 87. The allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes. The business units (or groups of units) to which goodwill has been allocated are as follows:

Segment

Business units (or groups of units)

Domestic

Core Domestic

International Wholesale

Brazil

Tim Brasil

Media

Telecom Italia Media

Other operations

BBNed

The value used to determine the recoverable amount of the business units (or groups of units) to which goodwill has been allocated is the value in use, with the exception of Telecom Italia Media, for which the stock market capitalization at December 31, 2009 has been used as the fair value of the entity.

The most representative basic assumptions for the calculation of the value in use of each group of cash-generating units are presented in the following table:

Core Domestic

International Wholesale

Brazil

EBITDA margin

(EBITDA/revenues) during the period of the plan

EBIT margin (EBIT/revenues)

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)

Costs of network user rights
(IRUs) and related amortization

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 is based on the data in the 2010-2012 Plan. The expected flows beyond 2012 have been capitalized in perpetuity. The result flows used for purposes of the estimate of the value in use are cash nopat, equal to (Ebitda Capex) x (1-Tc). Only in the case of the International Wholesale CGU, the valuation prudently is based on the capitalization of the expected result (Nopat) for 2010 (excluding therefore the expected growth during the period of the plan and considering amortization higher than capex).

The nominal growth rates used to estimate the terminal value are the following (the growth rate of Brazil refers to flows in Brazilian reais):

Core Domestic

International Wholesale

Brazil

-0.35%

-0.5%

+2.93%

Such rates fall within the range of growth rates applied by the analysts who follow Telecom Italia shares (as can be seen in the reports published after the announcement of the Group s third-quarter 2009 results).

The cost of capital was estimated by considering the following:

a)

the criterion for the estimate of the cost of capital CAPM - Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

b)

the Beta coefficient for the Core Domestic CGU and International Wholesale arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (beta coefficient = 0.95);

c)

the Beta coefficient for the Brazil CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 1.22);

d)

in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business;

e)

for the principal operating segments of the Group, reference was made to the weighted average cost of capital (WACC) identified by the analysts who follow Telecom Italia shares in their reports published after the announcement of the Group s third-quarter 2009 results.

Since a direct correlation exists between the cost of capital used by analysts and the long-term growth rate (g) projected for purposes of estimating the terminal value, a comparison has also been made in terms of the capitalization rates (WACC-g). In particular, the capitalization rate (WACC-g) of the Core Domestic group of CGUs was used which is equal to the median of the rate used by equity analysts in their reports published after the presentation of the third quarter 2009 s results.. This rate expresses the implicit growth rate in the terminal value (g) of -0.35%. Since the growth rate in the terminal value depends on the level of capital expenditures (capex) needed to sustain such growth, in order to arrive at the estimate of the 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 14.97%). Concerning the Brazil CGU, the growth rate in the terminal value used for purposes of testing impairment is lower than the median of the analysts. Prudently, for purposes of estimating the terminal value, the capital expenditures rate (capex/revenues) nevertheless has been used corresponding to the median of the analysts (13.4%).

On the basis of these elements, the post-tax Weighted Average Cost of Capital and the capitalization rate (WACC post-tax - g) have been estimated for each business unit (the rates of Brazil refer to flows in Brazilian reais) as follows:

	Core Domestic	**International Wholesale**	**Brazil**
	%	%	%
WACC post-tax	7.60	9.28	12.92
WACC post-tax g	7.95		

9.78

9.99

WACC pre-tax

11.21

13.76

17.52

WACC pre-tax g

11.56

14.26

14.59

Values in use in excess of carrying amounts at December 31, 2009 are the following:

(millions of euros)	**Core Domestic**	**International Wholesale**	**Brazil**
Excess of values in use over carrying amounts			4,093

425

364

For purposes of the sensitivity analysis for Core Domestic and Brazil, four principal variables have been considered: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA and capital expenditures in proportion to revenues (capex/revenues). For International Wholesale, the sensitivity analysis regarded the cost of capital and the growth rate (g), the EBIT margin (EBIT/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

Value of key variables used in estimating the value in use

	Core Domestic	International Wholesale	Brazil
	%	%	%
Pre-tax discount rate	11.21	13.76	17.52
Long-term growth rate (g)	-0.35		

-0.5

2.93

Compound Annual Growth Rate (CAGR) of EBITDA

0.72*

NS

12.79

Capital expenditures rate (Capex/Revenues)

from 14.3 to 15.0

NS

from 13.4 to 20.4

EBIT Margin (EBIT/Revenues)

NS

10.61

NS

* This growth rate refers to EBITDA removed of the effects indicated in IAS 36.45, letter a.

Changes in key variables needed to

render the recoverable amount equal to the carrying amount

	Core Domestic	**International Wholesale**	**Brazil**
	%	%	%
Pre-tax discount rate	0.86	6.74	0.87
Long-term growth rate (g)	-1.08	- 6.74	-1.13
Compound Annual Growth Rate (CAGR) of EBITDA	-1.98	NS	-1.11

Capital expenditures rate (Capex/Revenues)	
	2.35
	NS
	0.80
EBIT Margin (EBIT/Revenues)	
	NS
	-3.40
	NS

Since the domestic Central Functions became part of the Core Domestic CGU after the reorganization of the Domestic segment, it was not necessary to carry out a second level impairment test on that segment. Instead, a second level impairment test was made by considering the recoverable amount at the level of the entire Group in order to include the Central Functions and the Business Units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the Business Units of the Group has been compared to the carrying amount of the total operating capital referring to the same units/segments. No impairment losses resulted at this level of testing.

Note 6 Intangible assets with a finite useful life

Intangible assets with a finite useful life decreased 210 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

(millions of euros)

12/31/2007

	Discontinued Operations[1]
	Additions
	Amortization
	Impairment losses / reversals
	Disposals
	Exchange differences
	Other changes
	12/31/2008
Industrial patents and intellectual property rights	
	2,796
	(42)

1,218

(1,775)

(2)

(97)

522

2,620

Concessions, licenses, trademarks and similar rights

3,089

(149)

633

(331)

(178)

24

3,088

Other intangible assets

363

(25)

302

(342)

(11)

3

290

Work in progress and advance payments

737

(19)

361

(6)

(1)

(6)

(572)

494

Total

6,985

(235)

2,514

(2,448)

(6)

(3)

(292)

(23)

6,492

(1) This refers to Liberty Surf group.

(millions of euros)
12/31/2008
Discontinued Operations[(2)]
Additions
Amortization
Impairment losses / reversals
Disposals
Exchange differences
Other changes
12/31/2009

Industrial patents and intellectual property rights
2,620
(48)
1,138
(1,662)
(4)
116
349
2,509

Concessions, licenses, trademarks and similar rights
3,088
(189)
114
(272)
(4)
216

44

2,997

Other intangible assets

290

(101)

348

(317)

15

5

240

Work in progress and advance payments

494

417

(36)

5

(344)

536

Total

6,492
(338)
2,017
(2,251)
-
(44)
352
54
6,282

(2) This refers to HanseNet Telekommunikation GmbH.

Additions in 2009 include 291 million euros of internally generated assets (312 million euros in 2008. Further details are provided in the Note Internally generated assets). Other changes refer mainly to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

Industrial patents and intellectual property rights at December 31, 2009 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite period of time (amortized over the period of useful benefit, estimated in three years). They mainly refer to Telecom Italia S.p.A. (1,908 million euros) and the Brazil Business Unit (504 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2009 mainly refer to:

.

unamortized cost of telephone licenses (1,720 million euros for Telecom Italia S.p.A. and 899 million euros for the Brazil Business Unit);

.

Indefeasible Rights of Use-IRU (195 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale);

.

TV frequencies of the Media Business Unit (130 million euros).

The unamortized cost of telephone licenses totaling 2,619 million euros (amortized on a straight-line basis) refers to the following:

.

licenses of Telecom Italia S.p.A.:

-

UMTS, 1,700 million euros, including the ex-IPSE license for 89 million euros regarding the 2100 MHz frequency purchased in 2009, expiring 2021 (amortized over 18 years);

-

Wireless Local Loop, 8 million euros, expiring 2021 (amortized over 15 years);

-

Wi-Max, 12 million euros, expiring 2023 (amortized over 15 years);

.

licenses of the Tim Brasil group:

-

GSM and 3G (UMTS), 819 million euros, expiring between 2012 and 2023 (amortized between 6-15 years);

-

TDMA, 70 million euros, expiring 2012 (amortized over approximately 14 years);

-

domestic and international fixed telephony and data transmission, 10 million euros, expiring between 2019 and 2027 (amortized over 20 years), mainly acquired through the consolidation of Intelig Telecomunicações Ltda.

Other intangible assets at December 31, 2009 mainly include 233 million euros for the capitalization of subscriber acquisition costs amortized over the minimum contract period (12 or 24 months) and relate to some sales campaigns of Telecom Italia S.p.A. (148 million euros) and the Brazil Business Unit (85 million euros).

Amortization and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2009 and 2008 can be summarized as follows:

12/31/2009 (millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	12,580	(14)		

(10,057)

2,509

Concessions, licenses, trademarks and similar rights

5,066

(233)

(1,836)

2,997

Other intangible assets

609

-

(369)

240

Work in progress and advance payments

542

(6)

536

Total

18,797

(253)

(12,262)

6,282

12/31/2008				
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	13,635	(15)	(11,000)	**2,620**
Concessions, licenses, trademarks				

and similar rights	4,889	(241)	(1,560)	**3,088**
Other intangible assets	992		(702)	**290**
Work in progress and advance payments	505	(11)		**494**
Total	**20,021**	**(267)**	**(13,262)**	**6,492**

Impairment losses on Concessions, licenses, trademarks and similar rights basically refer to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables relating to the international connections acquired by the Latin American Nautilus group.

Such impairments, principally relating to the years prior to 2004, were the result of the altered and shrunken market value of international broadband compared to the expectations anticipated at the historical date of those investments. Impairments decreased from 241 million euros to 233 million euros solely as a result of the translation of the U.S. dollar financial statements to euro.

The gross carrying amount of intangible assets principally comprises the reduction in the gross carrying amount and relative accumulated amortization taken up by Telecom Italia S.p.A. on Industrial patents and intellectual property rights for the retirement of software applications releases that are no longer in use or completely re-written or completely amortized for a total of approximately 3,000 million euros.

The change in the gross carrying amount and the relative accumulated amortization of other intangible assets is basically due to the accounting elimination of capitalized subscribers acquisition costs following the completion of the amortization process.

Note 7 Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased 646 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

(millions of euros)

12/31/2007

Discontinued Operations(1)

Additions

Depreciation

Impairment

losses/reversals

Disposals

Exchange differences

Other

changes

12/31/2008

Land	
	131
	(2)
	(6)
	123
Buildings (civil and industrial)	
	551
	4
	(43)

(1)

(9)

(9)

493

Plant and equipment

12,957

(129)

2,224

(2,850)

(6)

(279)

120

12,037

Manufacturing and distribution equipment

48

10

(23)

3

38

Ships

41

(8)

33

Other

965

303

(407)

(2)

(8)

(54)

60

857

Construction in progress and advance payments

791

(17)

223

(4)

(20)

(302)

671

Total

15,484

(146)

2,764

(3,331)

(6)

(17)

(362)

(134)

14,252

(1) This refers to Liberty Surf group.

(millions of euros)

12/31/2008

Discontinued Operations(2)

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

52

511

Plant and equipment

12,037

(460)

1,853

(2,780)

(23)

325

510

11,462

Manufacturing and distribution equipment

38

7

(16)

2

31

Ships

33

(7)

26

Other

857

(31)

310

(328)

(15)

60

(235)

618

Construction in progress and advance payments

671

(18)

292

(5)

(20)

38

(125)

833

Total

14,252

(509)

2,467

(3,176)

(5)

(61)

431

207

13,606

(2) This refers to HanseNet Telekommunikation GmbH.

Additions in 2009 include 224 million euros of internally generated assets (194 million euros in 2008). Further details are provided in the Note Internally generated assets .

Other changes in 2009 mainly refer to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates for the years 2009 and 2008:

Buildings (civil and industrial)	3% - 4%
Plant and equipment	3% - 33%
Manufacturing and distribution equipment	20% - 25%
Ships	9%
Other	11% - 33%

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2009 and 2008 can be summarized as follows:

12/31/2009		
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**

	Accumulated depreciation
	Net carrying amount
Land	
	125
	125
Buildings (civil and industrial)	
	1,372
	(1)
	(860)
	511
Plant and equipment	
	60,956
	(66)
	(49,428)
	11,462
Manufacturing and	

distribution equipment	305	(1)	(273)	**31**
Ships	143	(11)	(106)	**26**
Other	3,630	(8)	(3,004)	**618**
Construction in progress and advance payments	845	(12)		**833**
Total	**67,376**	**(99)**	**(53,671)**	

13,606

12/31/2008

(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Land	123			**123**
Buildings (civil and industrial)	1,291	(1)		

(797)

493

Plant and equipment

58,999

(70)

(46,892)

12,037

Manufacturing and distribution equipment

422

(1)

(383)

38

Ships

143

(11)

(99)

33

Other

3,882

(8)

(3,017)

857

Construction in progress and advance

payments

678

(7)

671

Total

65,538

(98)

(51,188)

14,252

Assets held under finance leases

Assets held under finance leases decreased 114 million euros compared to December 31, 2008. Details on the composition and movements during the year are as follows:

(millions of euros)

12/31/2007

Discontinued Operations

Additions

Depreciation

Other changes

12/31/2008

Buildings (civil and industrial)	Plant and equipment	Aircraft
1,361	**-**	**6**
21	40	
(104)	(3)	
24		
1,302	**37**	(3)

3

Other

30

3

(17)

16

Construction in progress and advance payments

53

23

(24)

52

Total

1,450

-

87

(127)

-

1,410

(millions of euros)

	12/31/2008	Discontinued Operations(2)	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

(2) This refers to HanseNet Telekommunikation GmbH.

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, 2009 and 2008 can be summarized as follows:

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

12/31/2008

(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,015			

	(27)
	(686)
	1,302
Plant and equipment	
	49
	(12)
	37
Aircraft	
	30
	(27)
	3
Other	
	170
	(154)
	16
Construction in progress and advance payments	
	52
	52
Total	

2,316

(27)

(879)

1,410

At December 31, 2009 and 2008, lease payments due in future years and their present value are as follows:

	12/31/2009		12/31/2008	
(millions of euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Minimum lease payments
Within 1 year	231	219	219	

218

From 2 to 5 years

809

614

789

632

After 5 years

1,262

636

1,434

737

Total

2,302

1,469

2,442

1,587

(millions of euros)

12/31/2009

12/31/2008

Future net minimum lease payments

	2,302	2,442
Interest portion	(833)	(855)
Present value of lease payments	**1,469**	**1,587**
Finance lease liabilities	1,815	1,987
Financial receivables for lessors net investments	(346)	(400)
Total net finance lease liabilities	**1,469**	**1,587**

Note 8 Other non-current assets

Other non-current assets decreased 1,225 million euros compared to December 31, 2008 and include:

(millions of euros)	12/31/2009	of which Financial Instruments	12/31/2008	of which Financial Instruments
Investments accounted for using the equity method:				
Associates	351		435	
Joint ventures	84			

61

435

496

Other investments

53

53

57

57

Securities, financial receivables and other non-current financial assets:

Securities other than investments
15
15
15
15
Financial receivables and other non-current financial assets
1,092
1,092
2,648
2,648
1,107
1,107
2,663
2,663

Miscellaneous receivables and other non-current assets:

Miscellaneous receivables

385

280

170

99

Medium/long-term prepaid expenses

508

524

893

280

694

99

Deferred tax assets (*)

	1,199
	1,002
Total	
	3,687
	1,440
	4,912
	2,819

(*) Analyzed in the Note Deferred tax assets and deferred tax liabilities .

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)	**12/31/2007**	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	**12/31/2008**

ETECSA	
	297
	16
	313
Italtel Group	
	43
	(4)
	39
Tiglio I	
	60
	(6)
	54

Tiglio II	
	4
	-
	4
Other	
	42
	(2)
	(6)
	(9)
	25
Total	
	446
	-
	(2)
	-
	(9)
	435

(millions of euros)

12/31/2008

Investments

	Sales and reimbursements of capital
	Valuation using equity method
	Reclassifications and other changes
	12/31/2009
ETECSA	
	313
	(24)
	289
Italtel Group	
	39

(39)

-

Tiglio I

54

(7)

(10)

37

Tiglio II

4

3

(6)

1

Other

25

2

(3)

24

Total

435

5

(7)

(43)

(39)

351

Investments in associates accounted for using the equity method decreased due to the reclassification of the Italtel Group (39 million euros) to other investments since the shareholders agreements ended at the close of 2008 and were not renewed.

The value of the investment in ETECSA includes 64 million euros of residual goodwill which arose when the company was acquired and is the difference between the investment value and corresponding share of net equity. Furthermore, Exchange differences on translating foreign operations in the Equity attributable to owners of the Parent include a cumulative negative amount of 92 million euros relating to ETECSA.

Investments accounted for using the equity method comprise the share of profits (losses) for the year and exchange differences on translating the financial statements of foreign operations. The main impact on the 2009 separate consolidated income statement relating only to the share of profits and losses specifically came from ETECSA (positive for 54 million euros), Tiglio I and Tiglio II (negative for 16 million euros) and other companies (negative for 3 million euros); the impact in 2008 related to ETECSA (positive for 53 million euros), Tiglio I and Tiglio II (negative for 6 million euros) and other companies (negative for 7 million euros).

Aggregate 2009 and 2008 data relating to the major associates, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The share of profits (losses) for the year refers, for consolidated groups, to the Parent and Non-controlling interests.

(millions of euros)	**2009**	**2008**
Total assets	613	868

Total liabilities	317	480
Revenues	178	260
Profits (losses) for the year	39	41

Investments in joint ventures accounted for using the equity method include the investments in Sofora Telecomunicaciones S.A. and Consorzio Tema Mobility in which 50% stakes are held. The value of the investment in Sofora Telecomunicaciones S.A. increased from 60.6 million euros to 83.3 million euros as a result of the share of the 2009 result (32 million euros) net of the negative change (10 million euros) of the exchange differences on translating foreign operations (negative for 17 million euros at December 31, 2009, negative for 7 million euros at December 31, 2008).

The most significant aggregate 2009 and 2008 data, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The share of profits (losses) for the year refers, for consolidated groups, to the Parent and Non-controlling interests.

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

	2009		**2008**	
	Data of joint ventures	**Telecom Italia Group s share 50%**	**Data of joint ventures**	**Telecom Italia Group s share 50%**
(millions of euros)	**Sofora group**	**Other companies**	**Sofora group**	**Other companies**

Non-current assets	
	1,404
	702
	1,458
	729
Current assets	
	669
	1
	335
	681
	1
	341
Total assets	
	2,073
	1
	1,037
	2,139
	1

1,070

Non-current liabilities

382

191

570

285

Current liabilities

900

450

937

468

Total liabilities

1,282

641

1,507

753

Revenues

2,347

1,173

2,283

1,142

EBITDA

719

359

674

337

Operating profit (EBIT)

505

253

407

204

Profit before taxes

410

205

315

157

Profit (loss) for the year

253

127

195

98

- Attributable to Non-controlling interests

188

95

147

74

-

Attributable to owners of the Parent

65

32

48

24

The list of companies accounted for using the equity method is presented in the Note List of companies of the Telecom Italia Group .

Other investments refer to the following:

(millions of euros)	**12/31/2007**	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	**12/31/2008**
Assicurazioni Generali	5			(2)		

3

Dahlia TV

5

5

Fin.Priv.

15

15

New Satellite Radio

7

7

Sia SSB

11

11

Other

19

1

(1)

(3)

16

Total

57

6

(1)

(2)

(3)

57

(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

The 19.37% investment in Italtel Group (39 million euros at December 31, 2008) has been reclassified from investments in associates to other investments recorded at cost. The value was written off on the basis of a valuation supported by a specific report on its estimated value, conducted by an independent appraiser.

Financial receivables and other non-current financial assets are composed as follows:

(millions of euros)

12/31/2009

12/31/2008

Financial receivables for lessors net investments	228	257
Loans to employees	54	59
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	792	2,310
Other financial receivables	18	22
Total	**1,092**	**2,648**

Financial receivables for lessors net investments refer to:

.

Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;

.

medium/long-term portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering of accessory services under the full rent formula.

The total amount (non-current and current portion) of these receivables is as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Non-current portion	228	257
Current portion	118	143
Total	**346**	**400**

Hedging derivatives relating to hedged items classified in non-current assets and liabilities of a financial nature refer to the mark-to-mark component.

Additional information is provided in the Note Derivatives .

Miscellaneous receivables and other non-current assets amount to 893 million euros (694 million euros at December 31, 2008).

They include, among others:

.

the fair value of the two call options on 50% of Sofora Telecomunicaciones S.A. share capital for 130 million euros (70 million euros at December 31, 2008);

.

medium/long-term prepaid expenses of 508 million euros (524 million euros at December 31, 2008) relating to the deferral of costs in connection with the recognition of revenues.

Note 9 Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Deferred tax assets	1,199	1,002
Deferred tax liabilities	(160)	(386)

Total	**1,039**	**616**

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)	**12/31/2009**	**12/31/2008**
Deferred tax assets	1,308	1,194
Deferred tax liabilities	(269)	(578)
Total	**1,039**	**616**

The change in deferred tax assets and liabilities is a positive 423 million euros and is due to:

.

reclassification of the deferred net tax liabilities of HanseNet to Non-current assets held for sale (+9 million euros);

.

utilizations and new accruals of deferred tax assets and liabilities which have given rise to a tax benefit in the income statement for the year ended December 31, 2009 (+31 million euros);

.

tax effect taken directly to equity in 2009, mainly referring to the fair value adjustment to derivatives (+367 million euros);

.

positive exchange difference (+16 million euros).

Upon presentation of the tax return for the year 2008, 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 in equal amounts will result in an absorption of net deferred tax assets of approximately 60 million euros per year over the next four years.

The temporary differences which make up this line item at December 31, 2009 and 2008 are the following:

(millions of euros)

12/31/2009

12/31/2008

Deferred tax assets:

-

Derivatives

321

201

-

Provision for bad debts

208

187

-

Provisions for risks and charges

148

169

-

Sale and leaseback transactions on properties

117

144

-

Provision for pension fund integration (Law 58/92)

73

103

-

Tax loss carryforwards

104

80

-

Provision for restoration costs

53

67

-

Recognition of revenues

65

76

-

Capital grants

17

25

-

Unrealized intragroup gains

10

15

-

Impairment losses on investments and other

6

4

-

Taxed amortization and depreciation

134

78

-

Other deferred tax assets

52

45

Total

1,308

1,194

Deferred tax liabilities:

-

Derivatives

(97)

(339)

-

Business combinations

(25)

(52)

-

Deferred gains

(19)

(47)

-

Accelerated depreciation

(38)

(38)

-

Discounting of provision for employee severance indemnities

(31)

(37)

-

Bonds

(16)

(12)

-

Other deferred tax liabilities

(43)

(53)

Total

(269)

(578)

Total net deferred tax assets

	(liabilities)
	1,039
	616

At December 31, 2009, the Group has unused tax loss carryforwards for 5,777 million euros, mainly referring to certain foreign companies such as the Tim Brasil group, the Latin American Nautilus group and the companies Telecom Italia Sparkle Luxembourg, Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

Year of expiration	(millions of euros)
2010	231
2011	175
2012	18
2013	10
2014	11
Expiration after 2014	16
Without expiration	5,316
Total unused tax loss carryforwards	

5,777

Tax loss carryforwards which are considered in the calculation of deferred tax assets amount to 367 million euros at December 31, 2009 (279 million euros at December 31, 2008) and mainly refer to the TIM Brasil group, the LAN group and the company Telecom Italia International.

Instead, deferred tax assets of 1,686 million euros (1,525 million euros at December 31, 2008) have not been recognized on 5,410 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable.

At December 31, 2009, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries and associates, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.

Note 10 Inventories

Inventories increased 29 million euros compared to December 31, 2008. The composition is as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Raw materials and supplies	7	7

Work in progress and semifinished products	4	7
Finished goods	397	365
Total	**408**	**379**

Inventories particularly refer to Telecom Italia S.p.A. for 167 million euros (115 million euros at December 31, 2008) and the companies in the Brazil Business Unit for 162 million euros (169 million euros at December 31, 2008). They mainly consist of equipment, handsets and relative fixed-line and mobile telecommunications accessories. Another 56 million euros (71 million euros at December 31, 2008) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

Inventories written down in 2009 total 29 million euros (24 million euros in 2008) and mainly relate to the adjustment of mobile handsets to estimated realizable value.

No inventories are pledged as collateral.

Telecom Italia Group Consolidated Financial Statements at December 31, 2009

Note 11 Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets decreased 639 million euros compared to December 31, 2008 and are composed of the following:

(millions of euros)

	12/31/2009	of which Financial Instruments	12/31/2008	of which Financial Instruments
Amounts due on construction contracts	**25**		**26**	

Trade receivables:				
Receivables from customers	4,440	4,440	4,780	4,780
Receivables from other telecommunications operators	1,688	1,688	1,693	1,693
	6,128	6,128	**6,473**	6,473

Miscellaneous receivables and other current assets:				
Other receivables	914	247	1,198	510
Trade and miscellaneous prepaid expenses	395		404	
	1,309	247	**1,602**	510

Total
7,462
6,375
8,101
6,983

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Please note the following analyses present the ageing of the Financial Instruments enclosed between trade and miscellaneous Receivables and other current assets at December 31, 2009 and December 31, 2008.

			Overdue	
(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
6,375
4,877
467
201
218
612

Overdue

(millions of euros)

	12/31/2008	**current**	**0-90 days**	**91-180 days**	**181-365 days**	**More than 365 days**
Trade and miscellaneous receivables and other current assets	**6,983**	5,261	439	333	259	691

Please note the significant reduction in the oldest overdue categories; in particular, the contraction in receivables overdue more than 365 days is also due to the closing of disputes with other operators.

Trade receivables amount to 6,128 million euros (6,473 million euros at December 31, 2008) and are net of the provision for bad debts of 976 million euros (828 million euros at December 31, 2008).

Trade receivables specifically refer to Telecom Italia S.p.A. (4,553 million euros) and the Brazil Business Unit (999 million euros).

Trade receivables include 26 million euros (18 million euros at December 31, 2008) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU.

Movements in the provision for bad debts are as follows:

(millions of euros)	2009	2008
At January 1	**828**	**1,064**
Discontinued operations	(48)	(12)
Accruals charged to income statement	449	585
Utilization	(434)	(776)
Exchange differences and other movements	181	(33)

	At December 31
	976
	828

The provision relates to individual writedowns for 461 million euros (437 million euros at December 31, 2008) and general writedowns for 515 million euros (391 million euros at December 31, 2008).

Accruals are made for specific credit positions with particular risks. Amounts accrued in respect of receivable positions without such features are effected on the basis of the average estimated uncollectibility by customer segment.

Other changes refer mainly to the entry in the scope of consolidation of Intelig Telecomunicações Ltda.

Other receivables amount to 914 million euros (1,198 million euros at December 31, 2008) and are net of a provision for bad debts of 74 million euros (60 million euros at December 31, 2008). Details are as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Advances to suppliers	72	99
Receivables from employees	27	27
Tax receivables		

	378	239
Sundry receivables	437	833
Total	**914**	**1,198**

Sundry receivables mainly include:

- receivables from factoring companies (113 million euros);
- receivable for the Italian Universal Service (53 million euros);
- receivables from the Italian state and the European Union (30 million euros) for grants regarding research and training projects.

Trade and miscellaneous prepaid expenses principally pertain to building leases, rentals and maintenance as well as the deferral of costs referring to the recognition of revenues.

Note 12 Current income tax receivables

Current income tax receivables amount to 79 million euros (73 million euros at December 31, 2008) and mainly include the receivables of the Tim Brasil Group companies (59 million euros), as well as IRES and IRAP taxes paid in 2009 by Telecom Italia Sparkle in excess of the current IRES and IRAP taxes due (14 million euros).

Note 13 Investments (current assets)

Investments (current assets) amount to 39 million euros and refer to the investment held in Entel Bolivia S.A., classified as an available-for-sale financial asset under current assets starting in 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the company s shares.

Further details on the nationalization of Entel Bolivia and the resulting dispute with the Bolivian Government is provided in the Note Contingent assets and liabilities, commitments and guarantees .

Note 14 Securities other than investments (current assets)

Securities other than investments (current assets) increased 1,658 million euros compared to December 31, 2008. The composition is as follows:

(millions of euros)	
12/31/2009	
12/31/2008	
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	1,093	74
Financial assets at fair value through profit or loss		
.		
Listed securities other than investments held for trading	750	111
Total	**1,843**	**185**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Listed securities other than investments available-for-sale, due after three months include 900 million euros (nominal value) of Italian Treasury Bills (with an A rating by S&P s) and 112 million euros (nominal value) of bonds issued by counterparts with at least a BBB rating and with different maturity dates and all actively traded, therefore, readily convertible into cash.

Listed securities other than investments held for trading refer to investments in a Belgian-registered monetary SICAV for 350 million euros (111 million euros at December 31, 2008) with at least an A rating by S&P s, 200 million euros in a monetary fund and 200 million euros in a government fund, both with AAA ratings by S&P s, and managed by a leading international credit institution.

Note 15 Financial receivables and other current financial assets

Financial receivables and other current financial assets increased 624 million euros compared to December 31, 2008. Details are as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Financial receivables for lessors net investments	118	143
Receivables from employees	9	13
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		

	310	180
Non-hedging derivatives	32	122
Other short-term financial receivables	646	33
Total	**1,115**	**491**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Financial receivables for lessors net investments refer to:

.

the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;

.

the current portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering of accessory services under the full rent formula.

Hedging derivatives relating to hedged items classified as current assets of a financial nature refer to accrued income on the derivatives. Further details are provided in the Note Derivatives .

Other short-term financial receivables include 638 million euros of loans made by Group companies to HanseNet Telekommunikation, and fully repaid upon the disposal of the company which occurred on February 16, 2010.

Note 16 Cash and cash equivalents

Cash and cash equivalents increased 88 million euros compared to December 31, 2008. Details are as follows:

(millions of euros)	**12/31/2009**	**12/31/2008**
Liquid assets with banks, financial institutions and post offices		

	4,613	4,418
Checks, cash and other receivables and deposits for cash flexibility	1	9
Receivables from the sale of securities convertible (to cash within 3 months)	-	493
Securities other than investments (due within 3 months)	890	496
Total	**5,504**	**5,416**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The different technical forms used for the investments of liquidity as of December 31, 2009 can be analyzed as follows:

.

maturities: all deposits have a maximum maturity date of one month;

.

counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least A;

.

country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 20 million euros (100 million euros at December 31, 2008) of euro commercial paper, maturing within 3 months, with issuers that all have A- ratings, and 857 million euros (391 million euros at December 31, 2008) of Brazilian certificates of deposit (*Certificado de Depósito Bancário*) with maturities within 3 months, from local banking and financial institutions with at least an A rating.

Note 17 Discontinued operations/Non-current assets held for sale

In the statement of financial position at December 31, 2009, the line items Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale include the data of HanseNet Telekommunikation GmbH. At December 31, 2008, Discontinued operations/Non-current assets held for sale had included the investments in Luna Rossa Challenge 2007 and Luna Rossa Trademark, both disposed of during 2009, the total value of which was 9 million euros.

In the income statements and the statements of cash flows for the years 2009 and 2008, the respective line items Profit (loss) from Discontinued operations/Non-current assets held for sale and Cash flows from (used in) Discontinued operations/non-current assets held for sale refer to HanseNet. In 2008, such line items had also included Liberty Surf group s contribution on consolidation and the effects of the relative sale, which took place in August 2008.

Sale agreements for in 2009

HanseNet Telekommunikation GmbH

In keeping with the focus on the core markets as announced in December 2008, the board of directors meeting held on November 5, 2009 approved the disposal of HanseNet Telekommunikation GmbH to Telefónica group. HanseNet (a wholly-owned subsidiary of Telecom Italia S.p.A. through its holding Telecom Italia Deutschland Holding GmbH) is an operator in the retail broadband market in Germany.

The competitive scenario of the German broadband market and its future prospects, given the size and infrastructural features of competitors, would have made it difficult for the company to acquire a strategic positioning that would be successful in the long term in the absence of huge investments with an uncertain return. For this reason, therefore, the disposal responds to the strategic rationale of financial discipline aimed at strengthening cash flows, with focus on the core markets.

The consideration on the sale negotiated by management of the Company was based on an enterprise value of 900 million euros.

The estimated economic impact of the sale, based on the enterprise value, was recorded in full in the consolidated financial statements at December 31, 2009.

Specifically, the transaction resulted in a negative impact on the consolidated result equal to 597 million euros including the goodwill impairment loss on the company of 558 million euros and also transaction costs and accruals to provisions.

The sale was concluded on February 16, 2010.

Divestitures in 2008

Liberty Surf group

On August 26, 2008, the Group finalized the sale to Iliad S.A. of the entire investment held by Telecom Italia in Liberty Surf Group S.A.S., the Internet Service Provider operating in France mainly with Telecom Italia s Alice brand.

In accordance with post-closing contractual price adjustment mechanisms, on November 14, 2008, a Settlement Agreement was signed on the basis of which Telecom Italia paid Iliad a total amount of 10 million euros for the post-closing price adjustment based on the net financial position and the number of customers at the closing date.

The effects of the sale on the consolidated financial statements at December 31, 2008, calculated on the basis of the enterprise value of the sale, equal to 800 million euros less 10 million euros relating to the adjusted post-closing price and a Net financial debt of the company estimated at the time of sale at approximately 300 million euros, was:

-

a reduction in net financial debt of the Telecom Italia Group of 744 million euros, including the deconsolidation of the net financial debt of the subsidiary sold;

-

a positive impact on the separate consolidated income statement of 160 million euros, net of transaction costs.

Furthermore, at the time of sale, on August 26, 2008, a contract was signed for the supply of technical services to Liberty Surf group by Telecom Italia S.p.A. under which Telecom Italia agreed to supply IT and network services and technical support for the migration of the customer base. The annual fee to which Telecom Italia is entitled is 15 million euros and the contract period is 12 months and can be extended to 18 months.

***

In the consolidated statement of financial position, the Discontinued operations /Non-current assets held for sale and the Liabilities directly associated with Discontinued operations/Non-current assets held for sale can be represented as follow:

(millions of euros)	**2009**	**2008**
Discontinued operations/ Non-current assets held for sale		
of a financial nature	81	-
of a non-financial nature	1.152	9
Total	**1.233**	

9		
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**	**-**