TELECOM ITALIA S P A
Form 20-F
April 10, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2008

OR

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

OR

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

Commission file number 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Marco PATUANO

Chief Financial Officer

Telecom Italia S.p.A.

Piazza degli Affari 2, 20123 Milan, Italy

+39.02.85.95.1

marco.patuano@telecomitalia.it

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

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

Ordinary Shares 13,299,979,086

Savings Shares 6,026,120,661

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

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

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

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

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

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

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

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

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow Item 17 ¨ Item 18 ¨

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

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

INTRODUCTION

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

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**). The designation **IFRS** also includes all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**).

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2008 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

Telecom Italia adopted IFRS for the first time in its annual Consolidated Financial Statements for the year ended December 31, 2005, which included comparative financial statements for the year ended December 31, 2004. See Item 3. Key Information 3.3 Selected Financial and Statistical Information .

Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, sh seeks or anticipates or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified particularly in our core Italian market, including regulatory measures regarding pricing and access for other local operators. Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

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

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

- our ability to successfully implement our strategy over the 2009-2011 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;

Table of Contents

- 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.

Table of Contents

KEY DEFINITIONS

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

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

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

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

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

Table of Contents

Key Definitions

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

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (×1); basic ISDN (×2); primary ISDN (× between 20 and 30 as an average);
- Internet and data accesses: includes BroadBand accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);
- IP TV (Internet Protocol TV);
- Mobile accesses (includes mobile telephony);
- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, shared UL);
- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and
- Other: includes other circuits for other operators.

4

Table of Contents

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

Item 2. Offer Statistics and Expected Timetable

Item 3. Key Information

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

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

RISKS RELATED TO THE TELECOM ITALIA GROUP

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

On December 3, 2008, we set out our strategic priorities for the 2009-2011 period. Our strategy is aimed at improving revenues and selective growth, while maintaining financial discipline. To achieve this goal, we will focus on:

- our leading competitive position in the domestic market, developing innovative services (BroadBand and closely related businesses), improving efficiency and reducing debt levels, including through disposals of non-core assets. More specifically, the 2009-2011 strategic plan pursues a return to growth in our domestic market through:

  changing our organization from a technology-based approach (fixed and mobile TLC) to a customer-centric approach (consumer, business and Top Client);

  reducing **Digital Divide** through decreasing the gap between BroadBand and fixed-line penetration levels;

  developing mobile BroadBand;

  developing innovative and closely related businesses to increase customer share;

  reorganizing our brand architecture to engender a more consistent perception of convergent offerings and customer-centric approach;

  seeking new cost-efficiencies in identified business and support areas, including IT, Network Operations, Building and Energy rationalization, Sales and Distribution reengineering, Customer Operations and Delivery and Assurance programs;

- internationally, on our Brazilian operations, strengthening our position in Brazil by leveraging mobile telephony to enable BroadBand growth and exploiting opportunities arising from fixed-line/mobile migration; and

- realizing value from the disposal of non-core assets.

Telecom Italia s ability to implement and achieve these strategic objectives may be influenced by certain factors, including factors outside of its control, such as:

- regulatory decisions and changes in the regulatory environment in Italy and other countries in which Telecom Italia operates;

- increasing numbers of new competitors in the Italian telecommunications market which could cause Telecom Italia to lose further market share;

- increasing and stronger market competition in its principal markets with a consequent decline in the prices of services;

Table of Contents

Item 3. Key Information **Risk Factors**

- Telecom Italia s ability to strengthen its competitive position in Italy through its focus on related markets and in international markets, particularly in Brazil for mobile telecommunications;
- Telecom Italia s ability to develop and introduce new technologies which are attractive to the market, to manage innovation, to supply value added services and to increase the use of its fixed and mobile networks;
- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- Telecom Italia s ability to manage costs;
- the effect of the global credit crisis and recessionary conditions in the major markets in which the Telecom Italia Group operates;
- Telecom Italia s ability to refinance existing indebtedness when due under the current uncertain conditions in the capital and bank markets as credit markets worldwide have experienced a severe reduction in liquidity and term funding;
- Telecom Italia s ability to attract and retain highly qualified employees;
- the effect of exchange rate fluctuations on the operating revenues, margins and financial management of Telecom Italia.

As a result of these uncertainties there can be no assurance that the objectives identified by management can effectively be attained in the manner and within the time-frames described.

The crisis currently affecting the global economy could adversely affect our businesses and therefore could have a negative impact on our operating results and financial condition.

From a macroeconomic standpoint, the crisis currently affecting the global economy, which is expected to continue for at least the whole of 2009, includes a general contraction in consumer spending, with the impact on consumer spending varying between geographical areas and different markets.

In Italy, the recession is expected to have the greatest impact on the demand for investments and on the purchase of consumer durable goods and articles of mass-consumption, whereas it is expected to have less impact on services like telecommunications. In 2009, Gross Domestic Product (**GDP**) is expected to decline by approximately 2%.

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

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

The global economic crisis creates significant uncertainty and will adversely impact consumer spending, including on telecommunication services. If we fail to successfully implement our plans to improve efficiency and optimize expenditures, our results of operations and financial condition could be adversely affected.

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

Our gross financial debt was 42,794 million at December 31, 2008 compared with 43,636 million at December 31, 2007 and our total net financial debt was 34,039 million at December 31, 2008 compared with 35,701 million as of December 31, 2007.

Due to the competitive environment and the economic conditions in which we operate, there could be deterioration in the statement of income and balance sheet measures (such as EBITDA, with EBITDA calculated for these purposes as Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets and Net Financial Debt). Ratios derived from these same measures are used by the rating agencies, such as Moody s and Standard & Poor s, which base their ratings on the Group s ability to repay its debt.

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

The volatility characterizing the wholesale capital markets could make it more difficult for us to access the bond markets. In addition, our credit risk could lead to an increase in our refinancing costs. A prolonged duration of the credit downturn with the consequent higher refinancing costs could have a material adverse effect on the Group s results of operations and financial condition.

Factors which are beyond our control such as deterioration in the performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, continuing disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions also as a result of the current financial crisis, could have a significant effect on our ability to reduce our debt, or the ability of the Group to refinance existing debt through further access to the financial markets.

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

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

Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our reputation.

Our business depends on the upgrading of our existing networks.

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

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

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

Table of Contents

We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties. The ultimate outcome of such proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

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

The Italian Collective Action for Damages for the Protection of Consumers passed in December 2007 is currently undergoing substantial modifications by the Italian Parliament and will enter into force on July 1, 2009. The law will allow collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action law. Therefore there will be a risk of claims against Telecom Italia by consumers associations on behalf of broad classes of consumers.

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

Risks associated with Telecom Italia s ownership chain.

Telco a company in which interests are held by Generali group (28.1%), Intesa SanPaolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (**Telefónica**) (42.3%) is Telecom Italia s largest shareholder, holding an interest of approximately 24.5% of the voting rights.

Although Telco does not own a controlling interest in Telecom Italia s voting shares, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors (in the Shareholders Meeting on April 14, 2008 12 out of 15 Board members were elected, as a result of Telco s proposal). In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia s other Ordinary Shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco. In addition, Telefónica is the largest shareholder of Telco. Presently Telefónica and Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. Such agreements provide that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at board of directors meetings which discuss matters relating to members of the Group in countries where Telefónica and Telecom Italia compete. Specific additional matters have been agreed with respect to Telecom Italia s operations in Brazil. For further information, please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.1 The Shareholders Agreements and Item 10. Additional Information 10.1 Corporate Governance . See also Note Contingent liabilities and assets, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

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

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

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia s Bylaws pursuant to compulsory legal provisions. The exercise of such powers could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer.

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

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

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

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

Our business is dependent to a large degree on general economic conditions in Italy and our other principal markets such as Brazil, including levels of interest rates, inflation, taxes and general business condition. A significant deterioration in economic conditions could adversely affect our business and results of operations. We may also be adversely affected by political developments in other countries where we have made significant investments. Certain of these countries have political and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments.

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

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

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

As a member of the European Union (the **EU**), Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. Included within the EU framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (the **Italian Communications Authority** or **AGCom**) to identify operators with significant market power (**SMP**) based on a market analysis in relevant separate retail and wholesale markets, identified in an EC Recommendation, in which it is considered necessary to intervene to protect free competition. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power .

During 2006 and 2007, AGCom concluded the first round of the analysis of the markets and introduced regulatory measures as a result of this analysis. Since the end of 2007 AGCom conducted various proceedings to carry out a second round of market analyses to determine whether to maintain, amend or withdraw the obligations in force relating to competition. During 2008 AGCom concluded the second round of analyses of the mobile markets. In particular, as to the mobile call termination market, AGCom set a four year **glide path** (i.e. a gradual declining reduction in tariffs) of the maximum termination rates for each operator such that by 2012 all termination rates will be the same on each network. As to the mobile access and call origination market, AGCom has confirmed that the market is competitive and does not warrant ex ante regulation. The market analysis proceedings on the fixed markets were suspended until the AGCom approval of the Telecom Italia Undertakings in December 2008 (for further information please see Item 4 Information on the Telecom Italia Group Item 4.2 Business Units): they are now underway and should be closed by the year 2009.

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

In addition, in the first round of market analysis, the AGCom identified Telecom Italia as an operator having significant market power in all the relevant fixed markets and in the mobile termination market. As a result, we are subject to a number of regulatory constraints, including:

- a requirement to conduct our business in a transparent and non-discriminatory way;
- a requirement to have our retail prices for fixed voice telephony services subject to a price cap (i.e. the mechanism which adjusts the operator s prices according to the price cap index that reflects the overall rate of inflation in the economy and the ability of the operator to gain efficiencies; the basic formula is RPI-X, where RPI is the retail price index and X represents the expected efficiency of operator) or ex ante price tests in order to assess the replicability of the offer (i.e. the possibility for an efficient competitor to match Telecom Italia s retail prices using Telecom Italia s wholesale access services in the most efficient way). These price control mechanisms place certain limits on our ability to change our prices for certain services; and
- a requirement to provide interconnection services, leased lines and unbundled access to the local loop to other operators at cost-orientated prices, subject to specific network caps.

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

In December 2008, AGCom approved Telecom Italia s voluntary undertakings to improve the equality of treatment in the provision of access services where Telecom Italia has SMP. In addition, the majority of the retail markets and a few of the wholesale markets have been removed from the EC Recommendation which, together with the impact of Telecom Italia s undertakings on competition developments, could lead AGCom to reduce the regulatory burden, mainly in the retail markets.

The limited predictability inherent in regulatory interventions and the evaluation by the European Commission of the impact of Telecom Italia s undertakings on the competitive developments of the markets, expected by April 2009, could however result in some limitations in realizing any such benefits.

We are unable to predict the impact of any proposed or potential changes in the regulatory environment in which we operate both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which we are subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of licences, to Telecom Italia or to third parties, could adversely affect our future operations in Italy and in other countries where we operate.

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

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

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

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

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

Competition has continued to intensify. As of the date of this Annual Report, there are a number of significant competitors offering fixed-line and BroadBand services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. Some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which originated from fixed line operators.

Moreover convergence creates economic links among Telecommunications (**TLC**), Information Technology (**IT**), Media and Devices/Consumer Electronic (**Devices/CE**) markets, enabling lateral competition for different participants in these markets (from competition within the same technology to competition on the whole value chain). The ability to compete will determine value transfer among markets.

This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere.

We anticipate that in the short to medium-term there may be a stronger entry of peer-level international competitors into markets with existing operators, increasing the direct competition we face in our Italian domestic fixed-line and mobile telephony businesses, in the local and long-distance markets, and BroadBand.

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

- further price and margin erosion for its products and services;
- a loss of market share in core markets;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs related to investments in new technologies that are necessary to retain customers and market share; and
- difficulties in reducing debt and funding strategic and technological investments if it cannot generate sufficient profits and cash flow.

Although we have taken a number of steps to realize additional efficiencies and to rebalance revenue mix through the continuing introduction of innovative and value added services to enhance domestic growth, and although our plans take into account that we face significant competition from a number of operators in all the markets in which we operate, if any or all of the events described in the preceding paragraph should occur, the impact of such factors could materially adversely affect our results of operations and financial condition.

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

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

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

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

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as the convergence of services accelerates, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may not prove to be commercially successful. In addition, Telecom Italia may not receive the necessary licenses to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavorable regulation regarding the usage of these technologies (for example, uncertainty on Next Generation Access Networks regulatory requirements). Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

As a result, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base or to maintain revenues from such customer base.

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

In recent years, although mobile communications business has largely offset the decreased revenues in our Italian fixed-line business, mobile communications markets are approaching maturity levels in the voice services segment although the data and value-added services segments are growing.

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

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

In addition, as our core domestic Italian market has become increasingly saturated, the focus of competition has shifted to customer retention from customer acquisition, and increasing the value of existing customers. Such focus could result in increased expenses to retain customer loyalty or if we are unable to satisfactorily offer better value to our customers our market share and revenues could decline.

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

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

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

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users preferences or lower than expected PC penetration rate growth;
- BroadBand penetration does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide BroadBand connections superior to those that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

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

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

We intend to focus on IT-TLC convergence by addressing the ICT market, in particular offering network and infrastructure management, as well as application management and professional services. We expect to experience increasing competition in this market as additional competitors (mainly Telco operators through acquisition and partnership with IT operators) also enter this market.

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

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

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

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

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

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

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

Table of Contents

Item 3. Key Information **Risk Factors**

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular Brazilian Real) may adversely affect our consolidated results. A rise in the value of the Euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

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

Furthermore, we enter into derivative transactions to hedge our interest exposure and to diversify debt parameters in order to reduce debt cost and volatility within predefined target boundaries. However, no assurance can be given that fluctuations in interest rates will not adversely affect our results of operations or cash flows.

Table of Contents

3.2 EXCHANGE RATES

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00= U.S.$1.3919, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on December 31, 2008.

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

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

The following table sets forth for the years 2004 to 2008 and for the beginning of 2009 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per 1.00.

Calendar Period	High	Low	Average(1)	At Period end
2004	1.3625	1.1801	1.2438	1.3538
2005	1.3476	1.1667	1.2448	1.1842
2006	1.3327	1.1860	1.2563	1.3197
2007	1.4862	1.2904	1.3705	1.4603
2008	1.6010	1.2446	1.4726	1.3919
2009 (through April 1, 2009)	1.3730	1.2547	1.3023	1.3223
Monthly Rates	**High**	**Low**	**Average(1)**	**At Period end**
October 2008	1.4058	1.2446	1.3267	1.2682
November 2008	1.3039	1.2525	1.2744	1.2694
December 2008	1.4358	1.2634	1.3511	1.3919
January 2009	1.3718	1.2804	1.3208	1.2804
February 2009	1.3064	1.2547	1.2797	1.2662
March 2009	1.3730	1.2549	1.3050	1.3261
April 2009 (through April 1, 2009)	1.3223	1.3223	1.3223	1.3223

(1) Average of the rates for each month in the relevant period, except for April 2009 for which the dates used are through April 1, 2009.

The Ordinary Shares, par value 0.55 (the **Ordinary Shares**) and Savings Shares, par value 0.55 (the **Savings Shares**) of Telecom Italia trade on *Mercato Telematico Azionario* (**Telematico**), managed by Borsa Italiana S.p.A. (**Borsa Italiana**) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares (**Ordinary Share ADSs**) and the Savings Share American Depositary Shares (**Savings Share ADSs**), on the New York Stock Exchange (**NYSE**). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See Item 10. Additional Information 10.5 Description of American Depositary Receipts.

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

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2008, 2007, 2006, 2005 and 2004, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by the independent auditor Reconta Ernst & Young S.p.A..

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

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

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

Table of Contents

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

	2008(1)	2008(1)	2007(1)	2006(1)	2005(1)	2004(1)
	Year ended December 31,					
	(millions of U.S. dollars, except percentages and per share amounts)(2)	(millions of Euro, except percentages and per share amounts)				
Income Statement Data:						
Revenues	**41,977**	**30,158**	**31,013**	**31,037**	**29,794**	**28,292**
Operating profit	**7,604**	**5,463**	**5,955**	**7,635**	**7,631**	**7,603**
Profit before tax from continuing operations	**4,032**	**2,897**	**4,324**	**5,723**	**5,673**	**5,606**
Profit from continuing operations	**3,123**	**2,244**	**2,641**	**3,203**	**3,277**	**2,952**
Profit (loss) from Discontinued operations/Non-current assets held for sale	(40)	(29)	(186)	(200)	413	(118)
Profit for the year	**3,083**	**2,215**	**2,455**	**3,003**	**3,690**	**2,834**
• *Profit attributable to equity holders of the Parent(3)*	*3,082*	*2,214*	*2,448*	*3,014*	*3,216*	*1,815*
Capital Expenditures:						
• *Industrial*	*7,468*	*5,365*	*5,370*	*4,877*	*5,097*	*5,002*
• *Financial*	*8*	*6*	*637*	*206*	*14,934*	*868*
Financial Ratios:						
Revenues/Employees (average number in Group) (thousands of)(4)	552.1	396.7	396.2	394.6	376.7	355.4
Operating profit/Revenues (ROS)(%)	18.1%	18.1%	19.2%	24.6%	25.6%	26.9%
Ratio of earnings to fixed charges(5)	2.21	2.21	2.75	3.27	3.20	3.39
Employees, average number in the Group, including personnel with temp work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)	76,028	76,028	78,278	78,652	79,085	79,602
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	757	757	1,350	1,620	5,262	11,248
Basic and Diluted earnings per Share (EPS)(6):						
Ordinary Share	**0.15**	**0.11**	**0.12**	**0.15**	**0.17**	**0.11**
Savings Share	**0.17**	**0.12**	**0.13**	**0.16**	**0.18**	**0.12**
Of which:						
From continuing operations:						
• *Ordinary Share*	*0.15*	*0.11*	*0.13*	*0.16*	*0.15*	*0.12*

• *Savings Share*	*0.17*	*0.12*	*0.14*	*0.17*	*0.16*	*0.13*
From Discontinued operations/Non-current assets held for sale:						
• *Ordinary Share*			*(0.01)*	*(0.01)*	*0.02*	*(0.01)*
• *Savings Share*			*(0.01)*	*(0.01)*	*0.02*	*(0.01)*
Dividends:						
• per Ordinary Share	0.0696	0.0500(7)	0.0800	0.1400	0.1400	0.1093
• per Savings Share	0.0849	0.0610(7)	0.0910	0.1510	0.1510	0.1203

17

Table of Contents

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

	2008	2008	2007	2006	2005	2004
		As of December 31,				
	(millions of U.S. dollars, except percentages and employees)(2)	(millions of Euro, except percentages and employees)				
Balance Sheet Data:						
Total Assets	**119,195**	**85,635**	**87,425**	**89,457**	**96,010**	**81,834**
Equity:						
• Equity attributable to equity holders of the Parent	36,365	26,126	25,922	26,018	25,662	16,248
• Equity attributable to Minority Interest	1,016	730	1,063	1,080	1,323	4,550
Total Equity	**37,381**	**26,856**	**26,985**	**27,098**	**26,985**	**20,798**
Total liabilities	**81,814**	**58,779**	**60,440**	**62,359**	**69,025**	**61,036**
Total equity and liabilities	**119,195**	**85,635**	**87,425**	**89,457**	**96,010**	**81,834**
Share capital(8)	**14,742**	**10,591**	**10,605**	**10,605**	**10,599**	**8,809**
Net Financial Debt(9)	**47,379**	**34,039**	**35,701**	**37,301**	**39,858**	**32,862**
Net invested capital(10)	**84,760**	**60,895**	**62,686**	**64,399**	**66,843**	**53,660**
Financial Ratios:						
• Net financial debt(9)/Net invested capital(10) (debt ratio)(%)	55.9%	55.9%	57.0%	57.9%	59.6%	61.2%
Employees, number in the Group at year-end, including personnel with temp work contracts:						
• Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	77,825	77,825	82,069	81,927	84,174	82,620
• Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)			1,360	1,282	2,357	11,402

Table of Contents

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

	As of December 31,				
	2008(1)	2007(1)	2006(1) (thousands)	2005(1)	2004(1)
Statistical Data:					
Domestic Fixed:					
Fixed network connections in Italy	20,031	22,124	23,698	25,049	25,957
Physical accesses (Consumer and Business)	17,352	19,221	20,540	21,725	22,429
BroadBand accesses in Italy	8,134	7,590	6,770	5,707	4,010
Of which retail BroadBand accesses	*6,754*	*6,427*	*5,600*	*3,920*	*2,629*
Domestic Mobile:					
Mobile telephone lines in Italy	34,797	36,331	32,450	28,576	26,259
Brazil:					
Mobile telephone lines in Brazil	36,402	31,254	25,410	20,171	13,588
European BroadBand:					
BroadBand accesses in Europe	2,510	2,537	1,138	801	412

(1) Starting from January 1, 2008, the Liberty Surf group has been treated as a Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. All periods presented for comparison purposes have been restated.

(2) For the convenience of the reader, Euro amounts for 2008 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2008, of 1.00 = U.S.$ 1.3919.

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

(4) The average number of employees in the Group (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) was 76,028, 78,278, 78,652, 79,085 and 79,602 in 2008, 2007, 2006, 2005 and 2004, respectively.

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

- Earnings is calculated by adding:

profit before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and issue debt discounts or premiums;

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

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

capitalized interest for the applicable period; and

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

- Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

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

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

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

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

- Ordinary Shares was 13,246,643,947 for the year ended December 31, 2008, 13,254,934,303 for the year ended December 31, 2007, 13,254,860,233 for the year ended December 31, 2006, 12,283,195,845 for the year ended December 31, 2005 and 10,208,327,613 for the year ended December 31, 2004;

- Savings Shares was 6,026,120,661 for the years ended December 31, 2008, 2007 and 2006, 5,930,204,164 for the year ended December 31, 2005 and 5,795,921,069 for the year ended December 31, 2004.

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

(7) Telecom Italia s dividend coupons for the year ended December 31, 2008, will be clipped on April 20, 2009 and will be payable from April 23, 2009.

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

(9) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.3 Results of Operations for the Three Years Ended December 31, 2008 5.3.2 Non-GAAP Financial Measures .

(10) Net invested capital is equal to Total Equity plus Net financial debt.

3.4 DIVIDENDS

The determination of our future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to our earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time.

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

	Dividends on Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	Euro per Share	U.S. dollars per Share(1)	(millions of Euro)	Euro per Share	U.S. dollars per Share(1)	(millions of Euro)
2004	0.1093	0.1431	1,225.99	0.1203	0.1575	697.25
2005	0.1400	0.1753	1,873.12	0.1510	0.1891	909.94
2006	0.1400	0.1903	1,873.13	0.1510	0.2052	909.94
2007	0.0800	0.1253	1,070.36	0.0910	0.1426	548.38
2008(2)	0.0500	0.066115	669.04	0.0610	0.08066	367.59

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. As far as year ended December 31, 2008 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 1, 2009.

(2) Approved at the Annual Shareholders Meeting held on April 8, 2009. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders Annual Meeting approving the dividends. Telecom Italia s dividend coupons for the year ended December 31, 2008 will be clipped on April 20, 2009, and will be payable from April 23, 2009.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders meeting, which must be held within 120 days after the end of the financial year to which it relates. In addition, Article 21 of the Company s Bylaws gives the Board of Directors the power to approve the distribution of interim dividends . Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year s financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

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

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

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

Dividends payable on the Company s Ordinary Shares and Savings Shares may be subject to deduction of Italian withholding tax. See Item 10. Additional Information 10.5 Taxation . Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See Item 10. Additional Information 10.2 Exchange Controls and Other Limitations Affecting Security Holders .

Table of Contents

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

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

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

4.1 BUSINESS

4.1.1 BACKGROUND

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

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

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

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

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

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

On August 4, 2003, the Merger was completed with Olivetti as the surviving company changing its name to Telecom Italia S.p.A. . Following the Merger, the proportionate ownership of Telecom Italia s share capital by shareholders unaffiliated with Olimpia or Pirelli & C. S.p.A. (**Pirelli**), Olimpia s largest shareholder, increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the acquisition by Telecom Italia of the share capital in TIM it did not already own (the **TIM Acquisition**), Olimpia held approximately 17% of

Telecom Italia s Ordinary Shares, making it the largest shareholder of Telecom Italia. As a result of a series of transactions in December 2004 and March 2005, Olimpia acquired additional Ordinary Shares reaching approximately 21.4% of the outstanding Ordinary Shares.

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

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

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

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

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and the Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was completed on October 25, 2007 by Telco, to which Ordinary Shares equal to 5.6% of the ordinary share capital were contributed on the same date by Mediobanca S.p.A. and companies of the Generali Group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia ordinary share capital, of which 17.99% were held through Olimpia.

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

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

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

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders agreements concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders that Telecom Italia is aware of are the agreements among the Investors and Telco. See Item 7. Major Shareholders and Related-Party Transactions for a description of the new shareholder arrangements.

4.1.2 DEVELOPMENT

On December 3, 2008, the Telecom Italia Group announced its strategic guidelines and targets for the 2009-2011 period. Our business plan focuses, among other things, on a new **customer-centric approach** (consumer, business and Top Client), which is why we launched a new macro-organization starting in January 2009.

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

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

As a consequence of this new customer centric approach we will also redesign our actual Brand Platform, making it more consistent with our offering.

We will continue to boost innovative businesses, as we work to promote wide-ranging development of the digital economy.

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

4.1.3 Business

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America. The Group is engaged principally in the communications sector, including:

- telephone and data services on fixed lines, for final retail customers and wholesale providers,
- the development of fiber optic networks for wholesale customers,
- BroadBand services,
- Internet services,
- domestic and international mobile telecommunications (especially in Brazil), and
- the television sector using both analog and digital terrestrial technology.

The Group also operates businesses in the office products sector.

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

At December 31, 2008 the Telecom Italia Group was one of the world s largest fixed telecommunications operators with approximately 17.4 million physical accesses (consumer and business) in Italy, a decrease of 1.9 million compared to December 31, 2007. Offsetting this decline, the Wholesale customer portfolio reached approximately 5 million accesses for telephone services at December 31, 2008, an increase of approximately 1.5 million compared to December 31, 2007. In addition, in Italy, the BroadBand portfolio reached 8.1 million accesses at December 31, 2008 (consisting of 6.8 million retail accesses and 1.3 million wholesale accesses), an increase of 0.5 million accesses compared to December 31, 2007.

In addition, the Telecom Italia Group was the leading mobile operator in Italy, with approximately 34.8 million mobile telephone lines at December 31, 2008 compared to 36.3 million at December 31, 2007. The decline was attributed to a sales policy with a more selective approach, focused on high-value customers (at December 31, 2008 the mobile post-paid lines were approximately 6 million, a 12.5% increase compared to the end of 2007).

At December 31, 2008, the Telecom Italia Group had 36.4 million mobile telephone lines in Brazil (31.3 million at December 31, 2007).

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2008

For a description of disposals and acquisitions of significant equity investments in 2008 please see Note Form and Content and Other General Information , Note Business Combinations and Transactions among Companies Under Common Control , Note Other Non-Current Assets and Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.5 Recent Developments During 2009

New issue of 1.5 billion Telecom Italia bonds

On March 12, 2009, Telecom Italia placed two tranches of bonds with an aggregate principal amount of 1.5 billion. This issue was part of an ongoing process to refinance debt maturing during 2009. The bonds mature on March 21, 2013 and March 19, 2016, respectively. The two tranches (650 million and 850 million, respectively) bear interest at 6.75% and 8.25%, respectively. The bonds were issued under the Euro 15 billion EMTN Programme and were listed on the Luxembourg Stock Exchange.

For a description of other recent developments please see Note Events Subsequent to December 31, 2008 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.6 Overview of the Telecom Italia Group s Major Business Areas

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2008:

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

For the revenues, operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA), operating profit (loss), capital expenditures, number of employees and selected statistical data of the Telecom Italia Group s Business Units please see Item 5. Operating and financial review and prospects 5.3 Results of operations for the three years ended December 31, 2008 5.3.4 Business unit financial data .

4.1.7 Updated Strategy

Strategic Guidelines and Targets for the 2009-2011 Three-year Period (the Plan)

Telecom Italia s previously announced strategic guidelines for the 2009-2011 three-year period are highlighted below.

- Group Industrial Strategy: focus on the Italian domestic market and Brazil.
- Major commitment to cost and investment control in particular in the domestic business through seven company transforming programs.
- Further reductions in domestic employee numbers.
- Ongoing disposal of non-core assets.

A) Domestic Market

The primary objective of the Plan with respect to Telecom Italia s domestic market is to reverse the revenue trend decline in 2010 through growth in revenues from innovative services, BroadBand (fixed, mobile and VAS) and closely related businesses (**IPTV**/**ICT**/**Digital Home**/**Online Advertising**/**Service Exposure**).

Our efforts to return to domestic market growth are based on five points:

1. **Defense of market share through the new customer-centric approach** (consumer, business and Top Client), which, starting from January 2009, is fully operational as a result of the introduction of the new organizational structure described under 4.1.8 The Organizational Structure .

2. **Closing the fixed-line BroadBand penetration gap** compared with the European average, by increasing customer satisfaction through enhanced quality of service, offering innovation that addresses new needs, and promoting VAS and connectivity service suites for residential and business customers.

3. **Development of mobile BroadBand** through defense of TIM s interactive VAS services positioning and growth of convergent BroadBand customers.

4. Significant **development of closely related** businesses (IPTV, ICT, Online Advertising, Digital Home, Service Exposure) to increase customer share of wallet and loyalty.

5. Overhaul of the Group s brand architecture to engender a more consistent perception of new convergent offerings and of our customer-centric approach.

B) Brazil

Brazil is a growing emerging market where Telecom Italia is keen to strengthen its position by leveraging the potential of mobile telephony as a BroadBand growth enabler, and by exploiting opportunities arising from fixed-line/mobile migration. Telecom Italia intends to drive its Brazilian market operations through a focus on quality of service, innovation leadership, and a customer-centric approach, against a backdrop of cost efficiency.

We will continue to invest in innovation in an effort to ensure that the TIM brand becomes the standard for convergent products, such as those in mobile BroadBand.

TIM in Brazil continues to evaluate the opportunities linked to fixed-mobile convergence in the Brazilian market.

C) Reduction of Costs and Investments in the domestic business

The Plan identifies seven areas for increasing efficiency, in pursuit of a **Lean Company** approach, in order to further reduce domestic costs and investments. A substantial portion of these efficiencies is expected to be achieved during the course of 2009 through (i) three **IT**, **Network Operations**, **Building & Energy** simplification and rationalization programs; (ii) three **Sales & Distribution**, **Customer Operations** and **Delivery & Assurance** programs that will reengineer processes along customer-centric lines; and (iii) one **organization streamlining** and **process and support rationalization program**.

D) Further reductions in domestic employee numbers

We intend to further reduce domestic employees through organization rightsizing and alignment of staff functions to Best Practices in our mature industries: overall rightsizing, staff functions restructuring through shared services activities centralization and rationalization and streamlining of *guidance and control* activities.

E) Realizing the Value of Non-Core Assets

Telecom Italia has identified certain non-core assets that fall outside the Group s strategic objectives and the financial discipline that underpins its three year business plan. The Group plans to realize the value of this portfolio through asset dispositions.

In conjunction these strategic guidelines we will continue to pursue:

- strict financial discipline to strengthen the generation of operating free cash flow; and
- significant debt reduction.

Table of Contents

4.1.8 THE ORGANIZATIONAL STRUCTURE

At the end of 2008, Telecom Italia reorganized its business structure as part of the drive for greater efficiency announced at the presentation of the Plan.

In particular, this reorganization covered, among other things, the domestic business and disposals.

Domestic Market Operations has been subdivided, on the basis of the new customer-centric approach, into three macro-areas:

- The Consumer Market unit, which is focused on increasing the penetration of traditional and innovative landline and mobile network services for families and mass market customers.
- The Business Market unit, which is focused on promoting traditional, innovative, landline and mobile ICT technology use by SMEs and SoHo customers.
- The Top Clients & Networked IT Services unit, which is responsible for growing the value of Top, Large Account and Enterprise clients.

Furthermore, a new Disposals department was introduced to realize, in accordance with the Plan, the disposal of non-core assets.

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 1, 2009:

Table of Contents

4.2 BUSINESS UNITS

4.2.1 DOMESTIC

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

The Domestic Business Unit is organized as follows as of December 31, 2008:

The major business areas of the Domestic Fixed Telecommunications Services business are as follows:

- ***Retail voice*** services consist mainly of the supply of services using traditional technologies (PSTN and ISDN) and innovative technologies (VoIP). Retail voice services include: network access, traffic (in terms of minutes and rate plans), hire of telephone equipment and value added telephone services.

- ***Internet*** services consist mainly of ADSL services (connections, traffic, services, equipment and portals) and traditional Internet traffic (dial-up access).

- ***Data Business*** services include data transmission and network services for business customers, leased lines, equipment for data services and value added services.

- ***Wholesale*** offering includes national and international services for other operators, both for fixed and mobile operators and Internet service providers. Services offered to other domestic operators consist mainly of interconnection to the Telecom Italia network, in terms of access and traffic (collection, termination and transit), BroadBand access (ADSL and XDSL) and leased lines. Services offered to international OLOs consist mainly of traffic (carried traffic and transits) and data accesses.

v **KEY FACTORS**

Fixed-line Telecommunications

The development strategy continues for Retail BroadBand, the gradual penetration of VoIP due to the successful introduction of the new Alice Casa rate plans (a new Telecom Italia bundle offer which allows customers to connect to the BroadBand 24 hours a day, as well as unlimited calls without connection fees), as well as the expansion of the IPTV service on the Consumer market and the development of Internet content and services.

In the traditional voice services business, the strategy to encourage the loyalty of the customer base continues through the promotion of pricing packages (45% of which are at a flat rate) accounting for more than one third of our customers.

With regard to the Business Data segment, rationalization of price plans and services packages continues towards integrated solutions with ICT services, innovative TD and BroadBand.

Mobile Telecommunications

During 2008, this segment continued its strategy of maintaining market share in the higher-value customer segments and its policies to develop usage (both in voice and data transmission services). This proved possible due to goal-oriented acquisition policies in the valued customer segments, the increasing number of rate plans with Flat-rate or Bundled solutions (voice services, VAS and Mobile Internet) and the gradual penetration of 3G handsets and Internet users. The rate plan portfolio was enhanced and innovated with solutions geared to rate transparency and greater flexibility with regard to the various needs of the customer (for example, different rate plans for different levels and types of consumption).

In 2008, the Domestic Mobile Services department implemented a policy that offers different services packages according to the needs of customer segments. In particular, the aims are as follows:

- to increase penetration of the youth market by consolidating the Tribù concept (service dedicated to the young segment of the clientele; the rate plan aims to attain a competitive positioning by targeting young people, to educate and encourage them to favor the use of VAS services, and expand the TIM community) and the release in July 2008 of the new Mobile MTV service, a second brand resulting from the synergy between TIM and MTV which exploits the attractive potential of the two brands with regard to young people;

- to maintain market share and regain profitability among the mass-market consumer, objectives which were achieved by rationalizing the portfolio (ending the marketing of old rate profiles followed by repricing: changes in April 2008 to recharging conditions on each call received and an increase in August 2008 of the nominal rates by 3 cents on some of the old rate plans) and at the same time creating a portfolio of simpler phone rate plans;

- innovation through the launch in Italy of the iPhone which is being marketed through all-inclusive rate-plan solutions (July 2008).

The portfolio of TIM rate plans also saw the launch of new rate plans for family and friends, which are in addition to the rate profile of the customer, offering special rates towards one or more TIM numbers, such as the launch in May 2008 of the TIM in 2 rate plan (for unlimited calls and texts to one particular number) and, in October 2008, of family recharging (free calls and texts within the family network).

v **MARKETING AND DISTRIBUTION**

As a result of the newly adopted customer centric approach Telecom Italia is currently revising its sales structure.

Fixed Telecommunications

Through December 31, 2008 the sales structure of the Company was organized according to a vertical, multi-channel approach, in which different types of distribution channels specialized in different customer segments of the market.

The top 20,000 customers benefited from direct coverage by almost 670 sales personnel, each one of which had a dedicated portfolio to supervise and develop over the whole range of offerings (including data, ICT services and products).

All other customers (both Business and Consumer) were managed by several channels, including:

- the Telesales channel: an Outbound network of about 10 partners with more than 2,000 operators assisted by less than 100 internal resources, focused on volume and value acquisitions (e.g., pricing offers, ADSL, TV over IP, SKY, customer retention);
- the One Team channel: a territorial network of about 73 partners and 720 agents (commercial staff), focused on volumes, and directed towards the Consumer market;
- the ET Expert Team channel: a territorial network of 13 partners with approximately 450 agents and 1,400 Outbound operators focused on the development of the SOHO segment through offers with regard to pricing, ADSL and products, geared mainly to commercial businesses, small professional firms and SOHO;

- the BP Business Partner channel: a network of about 81 partners and 1,200 agents, focused on supervising SME (Small and Medium-size companies), the development of BroadBand, and the sale of products;
- the VAR Value Added Reseller channel: a territorial network with about 65 partners and 250 commercial staff focused on the development of VAS, the customized offering and complex networks;
- the SA Senior Account channel: a territorial network with about 100 partners focused on the development of VAS, the customized offering and complex networks; and
- the Public Telephone channel: a network of about 59 partners focused on National and International prepaid card services and associated traffic packages.

In addition to these partners, there was the pull channel, consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of about 4,000 retail points of sale.

Mobile Telecommunications

At December 31, 2008, Telecom Italia s physical distribution network consisted of 4,430 points of sale belonging to 2,283 distribution partners and 30 shops owned by Telecom Italia.

The points of sale are geographically widespread and of many different types which we believe provide us with a significant competitive advantage in marketing our products throughout Italy and in all the market segments.

Our sales network consists of various types of points of sale, which reflect different approaches to the market. The shops called Il Telefonino , which consist of both direct and franchised outlets (5%), represent the corporate image and specialize in the sale of high value services. The Centri TIM-Alice , which are specialized monobrand shops, offer products to the mass customer segment, targeting volumes and quality of distribution. Telecom Italia is also present in large multibrand shops.

v **COMMERCIAL AGREEMENTS**

The main commercial agreements entered into during 2008 by the Domestic Business Unit were as follows:

- on April 8, 2008, it was announced that Telecom Italia and the operator 3 Italia had signed a national roaming agreement which will allow the 3 clientele to also use Telecom Italia s nationwide mobile network, which now covers the entire domestic territory, for phone and data services. Furthermore, the two companies signed a new text interconnection contract;

- on May 6, 2008, Telecom Italia and Apple signed an agreement to market, from July 11, 2008, the new-generation iPhone that uses the 3G network and is twice as fast as the first-generation model and, from July 15, 2008 the I M (the suite of presence based services that can be used by the mobile phone);

- on June 9, 2008, Telecom Italia Sparkle (the Group s provider of international voice, IP and Data services for global operators of fixed-line and mobile telephone services) signed two collaboration contracts: one with Taiwan Mobile (the second-largest mobile phone service operator in Taiwan) for a fixed-mobile convergence project and one with Telkom Indonesia (the national fixed-line telephone service operator) to develop the Next Generation Network;

- on June 23, 2008, Telecom Italia and Fastweb signed an industrial agreement with the aim of sharing the infrastructure required to create the New Generation network, based on a model of collaboration open to all operators which are interested.

30

Table of Contents

v **Customer and Lines**

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

	As of and for the years ended December 31,		
	2008	**2007**	**2006**
Domestic Fixed			
Fixed-line network connections in Italy (thousands)	20,031	22,124	23,698
Physical accesses (Consumer and Business) (thousands)	17,352	19,221	20,540
Voice pricing plans (thousands)	5,834	6,375	6,468
BroadBand accesses in Italy (thousands)	8,134	7,590	6,770
Of *which retail* (thousands)	*6,754*	*6,427*	*5,600*
Virgilio page views during the year (millions)	16,405	14,737	13,283
Virgilio average daily single visitors per days (millions)	2.5	2.1	1.8
Fixed network infrastructure in Italy:			
• access network in copper (millions of km pair)	109.3	106.8	105.7
• access and carrier network in optical fiber (millions of km of fiber)	3.9	3.8	3.7
Fixed network infrastructure abroad:			
• European backbone (km of fiber)	55,000	55,000	51,000
• 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 the fixed network (billions):	144.3	156.8	173.8
• *National traffic*	*125.3*	*140.1*	*160.1*
• *International traffic*	*19.0*	*16.7*	*13.7*
Domestic Mobile			
Number of lines at year-end (thousands)	34,797	36,331	32,450
Of *which Prepaid lines* (thousands)(1)	*28,660*	*30,834*	*28,080*
Clientele growth (%)	(4.2)	12.0	13.6
Churn rate(2)	23.6	16.4	18.9
Total outgoing traffic per month (millions of minutes)	3,054	2,766	2,443
Total outgoing and income traffic per month (millions of minutes)	4,316	4,052	3,730
Average monthly revenues per line(3)	20.8	22.2	25.6

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

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

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

At December 31, 2008, the number of retail voice accesses was approximately 17.4 million, a decrease of about 1.9 million compared to December 31, 2007. The Wholesale customer portfolio, however, reached approximately 5 million accesses at year-end 2008, up about 1.5 million from December 31, 2007. The overall BroadBand portfolio increased and reached 8.1 million accesses at December 31, 2008 (an increase of 544,000 accesses compared to December 31, 2007) of which 6.8 million are retail and 1.3 million are wholesale.

At December 31, 2008, the number of GSM and UMTS mobile lines of Telecom Italia is approximately 34.8 million (of which 7.3 million are UMTS lines), a decrease from 2007 (-4.2%). At December 31, 2008, Telecom Italia s market share was 38%, down from December 31, 2007 (40.3%). This reduction 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 (about 6 million at year-end 2008) which increased by 12.5%, accounting for 17.3% of total lines.

Table of Contents

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK AND PRICE TRENDS**

The main regulatory events which occurred in 2008 that may have an economic impact on Telecom Italia are as follows.

Market analysis

During 2008 AGCom opened various proceedings to carry out the second round of relevant markets analysis (except for proceeding on the broadcasting transmission services market opened in February 2009) to determine whether to maintain, amend or withdraw the obligations in force as a result of Telecom Italia s treatment as an SMP operator following the first round of market analysis (i.e. transparency and non-discrimination including the publication of a Reference Offer, accounting separation and cost accounting, cost orientation and price control, access to the network). These proceedings should be closed within the year 2009.

Telecom Italia s Undertakings

On December 11, 2008, with Decision 718/08/CONS, AGCom finally approved Telecom Italia s undertakings proposal relating to its access network. The undertakings **(Undertakings)** are aimed to strengthen the equality of treatment s conditions intended for alternative operators and to promote greater competition in the fixed network markets.

The key element in these undertakings is the role played by Open Access, most notably its new provisioning and assurance processes designed to independently, separately and transparently manage and develop the Telecom Italia access network. In addition the undertakings call for: 1. a Compliance Board to assess implementation and observance of these commitments; 2. establishment of a new process for activating services and managing wholesale customers; 3. guarantees regarding a Code of Conduct for Open Access and National Wholesale Services personnel based on a system of targets and incentives relating to network and services quality; 4. transparent information on access network quality and development; 5. guarantees on co-location equipment services, including detailed information on available resources, and enhancement of delivery processes through technical committees on which other operators sit; 6. sharing of Next Generation Access Network (NGAN) passive infrastructure (cable ducts and conduits) on fair, reasonable and non-discriminatory technical and economic terms and conditions.

Following the undertakings approval, seven sanctions proceedings imposed on Telecom Italia were suspended and should be closed when the actual fulfillment of the undertakings is assessed.

Retail fixed markets

The fixed line subscription fee did not vary during 2008, since the *price cap* mechanisms expired in 2007. In December 2008 AGCom authorized Telecom Italia to increase the residential monthly rental fee starting from February 1, 2009 (from 12.14 to

13.40).

With respect to local, national and fixed-to-mobile call tariffs (only for retention) and leased lines, for the years 2008 and 2009 the price cap mechanism remains in force (**RPI** (**Retail Price Index**) RPI for fixed-to-fixed retention, RPI-6% for fixed-to-mobile retention and RPI-7% for leased lines).

Wholesale fixed markets

Wholesale tariffs for call origination, termination and transit services on the fixed telephone network, for the years 2008 and 2009, remained subject to the network cap mechanism (RPI-9.9%).

With Decision 251/08/CONS the Authority set a glide path for termination tariffs maximum values on fixed network alternative operators for the years 2007-2010 (see table below) which, in 2010, will result in termination tariffs the same on the Telecom Italia network equal to 0.57 Eurocent/min.

Starting from:	Fastweb	Wind	BT Italia	Tiscali	Tele2	Eutelia	Other operators*
7/1/2007	2.01	1.90	1.78	1.76	1.45	1.25	1.25
7/1/2008	1.53	1.44	1.38	1.36	1.15	1.02	1.02
7/1/2009	1.05	1.01	0.97	0.97	0.86	0.80	0.80
7/1/2010	0.57	0.57	0.57	0.57	0.57	0.57	0.57

(*) Other notified operators under Decision 417/06/CONS.

Table of Contents

Item 4. Information On The Telecom Italia Group **Business Units**

In October 2008 AGCom approved the 2008 Local Loop Unbundling (**LLU**) Reference Offer where the services tariffs were determined according to the cost orientation principle. The offer lowered the price of the LLU rental fee from 7.81 Euro/month in 2007 to 7.64 Euro/month from January 1, 2008.

In December 2008 AGCom launched a public consultation for the approval of the 2009 LLU offer where it proposed to increase the LLU monthly rental fee from 7.64 Euro/month to 8.55 Euro/month. On March 24, 2009 AGCom approved the increase of the LLU monthly rental fee to 8.49 Euro/month from January 1, 2009.

On February 1, 2008 Telecom Italia published the 2008 Reference Offer for bitstream services and on March 11, 2008 AGCom opened the assessment procedure of the Reference Offer for the year 2008. On March 24, 2009 AGCom approved a reduction of the ADSL access monthly rental fee from 9 Euro/month to 8.5 Euro/month for the period January 1, 2008 December 31, 2008. The decision approving the Reference Offer for year 2008 requires further reductions in the bitstream services prices for year 2009.

For the dedicated capacity transmission services for the year 2008, the network cap mechanism remained in force. It provides for a price variation equal to RPI-9.6% for termination circuits up to 155 Mbit/s and RPI-0% for superior circuits, RPI-0% for trunk circuits and RPI-9.6% for interconnection links. The 2008 Reference Offer was published by Telecom Italia on October 30, 2007 and was partially approved by the Authority. On October 31, 2008 Telecom Italia published the Reference Offer for the year 2009 where tariffs have been calculated according to the cost orientation principle. The Offer is currently being considered by AGCom s scrutiny .

Mobile market

At the end of 2007, with Decision 628/07/CONS, AGCom approved the reduction of H3G s terminating rate from 18.76 Eurocent/min. to 16.26 Eurocent/min. starting from March 1, 2008. Following Telecom Italia s appeal, partially accepted by the Lazio Administrative Court (TAR) at the end of January 2009, the price reduction has been anticipated from January 1, 2008.

Starting from July 1, 2008 there has been a reduction in Telecom Italia, Vodafone and Wind s termination rates according to the 2006-2008 glide path set with Decision 3/06/CONS of January 2006.

In August 2008, with Decision 446/08/CONS, AGCom further reduced the H3G termination rate from 16.26 Eurocent/min. to 13 Eurocent/min. starting from November 1, 2008.

At the end of November 2008, with Decision 667/08/CONS, AGCom set a glide path for call termination rates starting from July 1, 2009 for all mobile network operators. In 2012 full symmetry for all mobile operators will be reached, with a termination rate equal to 4.5 Eurocent/min.

TABLE OF THE 2008-2012 MOBILE TERMINATION RATE VARIATIONS

Eurocent/min	From 1/1/2008	From 7/1/2008	From 11/1/2008	From 7/1/2009	From 7/1/2010	From 7/1/2011	From 7/1/2012
H3G	16.26	16.26	13.00	11.0	9.0	6.3	4.5
Telecom Italia	9.97	8.85	8.85	7.7	6.6	5.3	4.5
Vodafone	9.97	8.85	8.85	7.7	6.6	5.3	4.5
Wind	11.09	9.51	9.51	8.7	7.2	5.3	4.5

During 2008, international roaming tariffs were reduced in compliance with the EC Regulation No. 717/2007 which set maximum values, at wholesale and retail level (called Euro-tariff) for calls originating and terminating within the European Economic Area, according to the following glide path:

	From August 2007		From August 2008		From August 2009	
	Originated	Terminated	Originated	Terminated	Originated	Terminated
Retail	0.49 Euro/min.	0.24 Euro/min.	0.46 Euro/min.	0.22 Euro/min.	0.43 Euro/min.	0.19 Euro/min.
Wholesale	0.30 Euro/min.		0.28 Euro/min.		0.26 Euro/min.	

Table of Contents

In September 2008 the Commission adopted a proposal, to be approved by Spring 2009, aimed to extend the Regulation s period of application and to intervene also on SMS and data.

Wi-Max Licenses

Following the auction to grant Wi-Max licenses (technology that allows BroadBand delivery over radio frequencies) closed in February 2008, Telecom Italia won a block of frequencies in the Umbria, Lazio, Abruzzi, Molise, Campania, Puglia, Basilicata, Calabria and Sardinia regions. The auction, launched on February 13, 2008 at a starting price of 45 million, after nine bid rounds closed at 140 million, more than similar auctions in Germany (60 million) and France (100 million). The auction total value for Telecom Italia is equal to approximately 14 million.

For further details please see Item 4. Information on the Telecom Italia Group-4.3 Regulation .

v COMPETITION

Fixed-line Telecommunications

At December 31, 2008, the number of fixed lines in Italy was approximately 22.6 million. The competition between the various operators in the fixed-line telecommunications market focuses on innovation of offerings through the introduction of voice/BroadBand packages (double play) and voice/BroadBand/IPTV packages (triple play). The evolution of the offering has been made possible by a shift, on the part of the competitors, from a mainly reselling approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an approach based on control of infrastructure (LLU and Wholesale Line Rentals).

Apart from Telecom Italia, the competition in the Italian market is dominated by various operators with different business models which focus on different market segments:

- Wind-Infostrada (an integrated fixed-line/mobile/Internet operator which specializes in retail voice customers with medium/low-cost 2Play rate plans);
- Fastweb (a national operator that focuses on high-value BroadBand and triple play service plans for the retail and corporate clientele), acquired from Swisscom;
- BT Italia (which focuses on the business clientele and ICT rate plans: voice, data and IT solutions);

- Tiscali (an operator of Narrowband and BroadBand Internet services, with medium/low-cost 2Play/VoIP rate plans);

- Tele2 (an operator of voice, dial-up Internet and BroadBand services, specializing in retail voice customers with low-cost 2Play/VoIP services), acquired from Vodafone.

Furthermore, in 2008, the migration of customers towards mobile telephone services and alternative forms of communication (messaging, e-mail and chat) continued. The increasing amount of competition in the access market has resulted in the gradual erosion of Telecom Italia s market share in volumes of retail voice traffic (71% in 2005, 70% in 2006, 69% in 2007 and 68% in 2008).

In 2008, the growth of the BroadBand market contracted slightly compared to previous years, due to a general orientation based on a value-based strategy to increase the penetration of flat-rate plans (dual/triple play) with higher added value. The penetration of BroadBand is driven by a growing demand for speed and connection to new over IP services (VoIP, Content, Social Networking Services, On Line Gaming, LAN Point and IP Centrex among others).

In the market of Top customers and data transmission, competition also remained fierce, with the effect of reducing average prices.

Mobile Telecommunications

At December 31, 2008, the number of mobile lines was 91.6 million, representing a penetration level of the population of approximately 163.5%. At December 31, 2008 the number of mobile GSM and UMTS lines operated by Telecom Italia was approximately 34.8 million (of which 7.3 million were UMTS lines), a decline of 4.2% compared to 2007.

Telecom Italia s market share is about 38.0%, a reduction compared to December 31, 2007 (40.3%) and September 30, 2008 (38.6%), although it retained its position of leadership (the second player Vodafone s market share was 32.8%, remaining almost stable compared to December 2007).

4.2.2 BRAZIL

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

v KEY FACTORS

The Tim Brasil group covers an area containing over 165 million of Brazil s 193 million inhabitants. Mobile operating subsidiaries have approximately 36.4 million customers located in each of the Brazilian states and in the Federal District. On December 31, 2008, its combined penetration reached approximately 78% of the Brazilian population and its combined market share totaled approximately 24.2%.

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

During the year 2008, the Tim Brasil group focused on the following:

- the launch in September of the fixed-line telephone service called TIM Fixo , available in more than 300 towns in Brazil;
- the innovation, with the launch of the first Brazilian notebook connected to high-speed Internet, called the Netbook . Tim Brasil offers different models of netbooks, with different features and prices to best fit each customer s need;
- convergence, through the development of third-generation services (Tim Web BroadBand) and integrated plans for fixed-line, mobile and Internet services;
-

the signing of important commercial agreements with content suppliers, which enable Tim Brasil to provide its customers with updated products and advantages;

- the launch of new promotional offers to encourage use of its services such as temporary discounts for the use of mobile internet access, sending of SMS and discounted calls for other Tim subscribers;

- an improvement in the level of service and strengthening of loyalty and retention policies in the high-consumption segments;

- the launch in December of the 8-Mb and 16-Mb 3G iPhone , with plans based on different rates, integrating voice, messaging and Internet traffic services; and

- the participation of Tim Brasil in the new portfolio of Bovespa s Corporate Sustainability Index (ISE), comprised only of companies with a commitment to sustainability and social responsibility.

35

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

	As of and for the years ended December 31,		
	2008	2007	2006
Number of lines at year-end (thousands)	36,402	31,254	25,410

v **MARKETING AND DISTRIBUTION**

Our services are marketed through the largest distribution network in Brazil with over 13,600 points of sale, of which approximately 100 are own stores. In addition, we have over 325,652 recharging points for prepaid service. We market our services through a network of stores, including general retail stores that sell our mobile telecommunications services and related goods on a non-exclusive basis, and dedicated outlets that sell our services and goods exclusively. We, however, intend to focus on sales through our exclusive stores and franchises as opposed to general retail stores where subsidies often generate losses. Sales of our products and services are offered by our sales personnel, as well as by authorized dealers. Customers with debit cards that use Banco 24Horas (ATMs), as well as customers using Visa, MasterCard or Diners credit cards are able to recharge their prepaid phones straight from their mobile handsets.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK AND PRICE TRENDS**

On September 1, 2008, number portability for mobile and fixed-line services was activated in Brazil. It will become available according to a chronological schedule established by ANATEL, so that, by March 2009, the service will have been introduced to 14 regions.

Number portability will allow Brazilian customers to change their telephone service operator only within their local area (and, in the case of mobile phone services, within the 67 city area codes).

v **COMPETITION**

The Brazilian mobile telecommunications industry is highly competitive.

TIM Brasil has two major competitors in Brazil:

- Vivo, which is jointly controlled by Portugal Telecom and Spain s Telefónica Móviles, operates in eight wireless areas of Brazil recognized by ANATEL, using, until 2007, TDMA and CDMA technology beginning in 2007, the use of GSM technology in 800 MHz and 1900 MHz in 2007 and in 2008 started the UMTS services in 2100 MHz; and

- Claro, which is controlled by America Móvil, operates in nine wireless areas of Brazil recognized by ANATEL, using GSM and TDMA technology.

A third player in the Brazilian market, Oi (the new Telemar brand), operates in all areas.

Tim Brasil also competes with fixed-line telephone service providers. The fixed-line incumbent providers in Brazil (Oi, Brasil Telecom and Telefónica), are offering packages of services including voice (both fixed line and mobile), BroadBand and other services.

Between the end of December 2007 and the end of December 2008, the Brazilian market of mobile phone lines reported an increase of 29.7 million new lines (+24.5%), reaching 150.6 million lines at December 31, 2008 (with 78.0% penetration of the population), compared to 121 million lines at December 31, 2007 (with 63.5% of penetration of the population).

At December 31, 2008, the Tim Brasil group held a market share of mobile lines of 24.2% (25.8% in December 2007). Overall, at December 31, 2008 mobile lines numbered 36,402 thousand, an increase of 16.5% compared to December 31, 2007.

4.2.3 European BroadBand

The European BroadBand Business Unit offers BroadBand access and services in Germany and in The Netherlands metropolitan areas in through the subsidiaries HanseNet Telekommunikation GmbH and BBNed N.V.

Hansenet Telekommunikation GmbH operates in the German residential BroadBand market under the brand Alice. It offers a full array of integrated telecommunications services (ADSL2+ BroadBand Internet Access, Voice and IPTV). At the end of 2008, the Unbundled Local Loop network coverage of Alice offer reached 69% of German households (28% through its own proprietary DSL network and 41% by means of its network partners QSC and Telefónica Germany). Hansenet also resells wholesale DSL products from the incumbent operator Deutsche Telekom A.G. (ADSL resale offer and, since the last quarter of 2008, the ADSL bitstream offer gradually replacing the resale one), thus reaching 100% coverage of German households. Following the acquisition of the Internet activities of AOL Germany finalized on February 28, 2007, Hansenet is now the fourth largest provider of DSL in the German BroadBand Market in terms of number of customers. In 2007, Hansenet was the first alternative German operator to offer a complete Quadruple Play proposition by launching its Mobile offering through a MVNO (Mobile Virtual Network Operator) agreement with O2 Germany. As of December 31, 2008, the mobile acquired customers reached 0.74 million (an increase of 126% compared to December 31, 2007).

BBNed N.V. offers a complete portfolio of high-quality, reliable DSL BroadBband services to Internet Service Providers, Applications Service Providers, retail business customers and other telecommunications companies in The Netherlands. BBNEd provides wholesale BroadBand access to third parties via its proprietary unbundled DSL network. In 2007, in order to expand its business portfolio, BBNed entered the retail residential BroadBand access market (ADSL and fiber) through the acquisition of the InterNlnet operator completed in July 2007. Furthermore, in August 2007, BBNed launched nationwide its retail *Alice* ADSL dual play offering, bringing Dutch customers connections with speeds up to 20 Mbit/s. As of December 31, 2008, there were 48,200 Alice customers (12,000 at 2007 year-end).

v **Key Factors**

Germany

During the year, the German subsidiary focused particularly on the following strategic goals:

- **innovation of the rate plans:**

  consolidation of customer loyalty through the introduction, across the entire range of rate plans, of the option of binding 24-month contracts, associated with specific commercial promotions;

launch of the Alice Comfort rate plans, based on a Premium level of customer service, and the enhancement of the Alice Mobile service through the introduction of new Flat-rate options;

development of the IPTV service, by adding the basic access component to the Fun Flat and Complete (triple and quadruple play) rate plans, and enhancement of the premium (Pay-TV and VOD) components;

37

launch in the last quarter of 2008 of the Bitstream offering in areas not covered by Unbundling, to replace the previous Resale offering;

continuation of activities for the up-selling of Alice rate plans to the existing AOL customer base;

- **improvement in the quality of service,** by reducing activation times, strengthening the VoIP service and re-defining Customer Care processes with a positive impact on customer retention;
- **consolidation of the Alice brand and raising Brand Awareness,** with the launch of various communication activities (in particular, in 2008, a new advertising campaign was launched with a testimonial from Brad Pitt);
- **extension of network coverage,** especially through our partners Telefónica and QSC (1,815 unbundling sites at the end of December 2008, whereas the number of unbundling sites of the proprietary network remains stable at 897);
- **development of Group synergies** for the wholesale offering and the Multinational Corporate customers.

The Netherlands

During 2008, despite continuing to develop all its BroadBand business lines (both wholesale and retail), the Dutch subsidiary focused on following:

- **growth in the Consumer BroadBand segment with the Alice brand,** supported by an enhancement of the available rate plans (Alice Easy single play which joins the Alice Comfort dual play bundle) and the launch of the fiber offering in Amsterdam, with the addition of a TV option;
- **operational efficiency,** through the consolidation of Provisioning and Customer Care processes and optimization of sales channels;
- **promotion of the Alice brand and raising Brand Awareness,** through advertising campaigns in various media channels.

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

	As of and for the years ended December 31,		
	2008	2007(1)	2006(1)
Hansenet BroadBand accesses in Germany (thousands)	2,344	2,349	0,951
BBNed BroadBand accesses in The Netherlands (thousands)	0,166	0,188	0,186

BroadBand accesses in Europe at year-end (thousands)	**2,510**	**2,537**	**1,138**

(1) For purposes of comparison, we have excluded the BroadBand accesses data of Liberty Surf group (902,000 at December 31, 2007 and 775,000 at December 31, 2006), following the sale of the Company to Iliad S.A. on August 26, 2008.

v **Marketing and Distribution**

In Germany and in The Netherlands, the commercial activities of the BroadBand companies are marketed, under the brand name *Alice*, and distributed through a multi-channel strategy. The mix of distribution channels allows the companies to reach different customer segments both in those areas covered by their own networks and in other geographical areas not covered by unbundling.

The main distribution channels used are:

- Call Centers;
- Web Internet;
- Retailers;
- Commercial partners.

38

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK AND PRICE TRENDS**

Germany

The main change in the regulatory framework during 2008 related to the introduction of the Bitstream offer (standard and naked) by Deutsche Telekom. The offer gives alternative operators (such as HanseNet) the opportunity to have access at a regulated and more economic price to areas covered exclusively by Deutsche Telekom (about 30% of households without Unbundled Local Loop access) and consequently it also provides an opportunity to migrate existing Wholesale and Resale customers.

With reference to the new ultra-BroadBand VDSL network of Deutsche Telekom, the German independent Regulatory Authority (**BnetzA**) did not require the incumbent to provide the service to the alternative operators, but merely to share the main network infrastructures (ducts and street cabinets). During 2009 a commercial wholesale offer by Deutsche Telekom is expected, extending VDSL service to alternative operators.

Currently a regulatory process is in progress in order to gradually reduce mobile termination tariffs for all operators, and Deutsche Telekom has been authorized to increase all the interconnection tariffs for the fixed network.

The Netherlands

During the last months of 2008 the Dutch Regulatory Authority (**OPTA**) published its indications on the development of the fiber access market and proposed that the incumbent s ultra-BroadBand network be opened to the alternative operators.

For Consumer and Business retail market the new rules will regulate tariffs for the local unbundling access, while the wholesale approach will be regulated only for the business segment. OPTA introduced a regulation for the dismantling of existing KPN s DSL local exchanges that is not deemed to be implemented before 2011.

The ultra-BroadBand network regulation, aimed at supporting the network infrastructure competition at local level, is expected to deeply influence the telecommunication sector in the near future.

v **COMPETITION**

Germany

Germany, which had reached more than 23 million BroadBand connections by the end of 2008, is Europe s largest market for BroadBand services. It has a penetration level (59% of households) that is still below the European average (62% at year-end 2008) and continues to hold interesting growth prospects. The BroadBand market is concentrated among 4-5 main players and further consolidation is expected, both in the DSL market and in the market of cable-TV operators.

During the year, competition resulted in strong price pressure due to the launch of promotional rate plans and the strengthening of Deutsche Telekom s win-back strategy. Cable TV operators increased their market shares as they technologically upgraded their networks and performed a very competitive pricing policy on triple play rate plans.

The entry of mobile operators Vodafone and O2 Germany to the BroadBand market has further intensified competition with converging packages of fixed-line/mobile services.

After the price reductions occurred during the 2008 first quarter, the nominal prices for the alternative operators Dual play offers attested themselves during the rest of the year to a reference value of about 30 Euro/month, while the competition was carried out mainly through a wide use of promotional offers.

The Netherlands

The Dutch market, which had reached 5.8 million BroadBand lines at year-end 2008, has one of the highest levels of BroadBand penetration in the world (80% of households) and one of the highest levels of penetration of the cable offering (about 40% of households) in Europe.

From a competitive standpoint, there was a significant amount of consolidation on the DSL market, as a result of an aggressive *M&A* strategy on the part of the incumbent KPN and, on the cable market, through the merger of two of the leading players, an operation that was completed in the first half of 2008.

KPN s new technological plan, supported by the joint venture with Reggefiber (the only alternative provider of fiber access), involves the development of fiber networks using FTTHome and FTTCurb technology and it should have a significant impact on competition in the broadband market, although the closure of KPN s DSL unbundled local exchanges, announced previously by KPN as part of its fiber network roll-out plan, will not start before 2011.

As regards pricing dynamics, during the second half of 2008 prices remained stable in nominal terms following a substantial reduction which occurred in the first months of 2008. In general, the main competitors developed their pricing strategies by means of promotional offers.

4.2.4 MEDIA

The Media Business Unit is organized into the **Television** and **News** Business Areas:

- the **Television** Business Area produces and broadcasts editorial content through the use of analog and digital broadcasting networks. In particular the Group based its Business Model on the following activities:

  Free to Air, through the activities of the two analog broadcasting network operators La7 and MTV;

  Multimedia, having the role of Competence Center of the Telecom Italia Group in the creation of the content offering;

  Digital Terrestrial TV, through the offering of new content and the rent to third party of digital bandwidth;

- the **News** Business Area operates through Telecom Media News, a leading national news agency.

As of December 31, 2008, the Business Unit was organized as follows:

v **KEY FACTORS**

Commercial Agreements

On December 1, 2008 Telecom Italia Media disposed of its Pay-per-View business segment on the Digital Terrestrial Platform to the Italian subsidiary Air P TV Development Italy S.r.l.. The transaction took place in the following manner:

- sale to Air P TV Development Italy S.r.l. of TV of APTV S.r.l., a company in which Telecom Italia Media conferred the business segment of the company that comprises the operations and staff associated with Pay-per-View television, against payment of a gross amount of 16.7 million, subject to subsequent adjustment;

- subscription by Telecom Italia Media of 9% of the share capital of the Italian subsidiary of Air P TV Development Italy S.r.l., against payment of 5 million.

By concluding this partnership agreement, Telecom Italia Media has achieved one of the most important aims of the Industrial Plan approved in September 2008, resolving the structural problems and the growing difficulties associated with Pay-per-View while at the same time giving a strong boost to the development of the activities of the Network Operator.

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

	As of and for the years ended December 31,		
	2008	2007	2006
La7 audience share Free to Air (analog mode) (average during year, in %)(*)	3.1	3.0	3.0
La7 audience share Free to Air (analog mode) (last month of year, in %)	3.0	3.1	3.1

(*) % of audience share based on Auditel data.

v **Main Changes in the Regulatory Frame Work and Price Trends**

Italian Law on Broadcasting

Law No. 101 of June 6, 2008 was enacted in response to the objections raised by the EU Commission on the Gasparri Law and the Consolidation Law on Broadcasting. The new law eliminates the special regime entailing individual licences for Digital Terrestrial broadcasters, and introduces the simpler general authorization mechanism contemplated in the Electronic Communications Code.

As of mid 2008 therefore, in order to become a national Digital Terrestrial broadcaster, it was no longer necessary to be an analog television broadcaster, or bring a dowry of a digital network covering 50% of the population, or commit to making an investment of 35 million per digital network, or even meet minimum share capital requirements.

Trading is being extended to all authorized parties based upon the rules of the electronic Communications Code. The licenses that had previously been issued have been converted to general authorizations which now last for 20 years instead of the previous 12 years.

As a consequence, the Ministry converted in general authorization the Telecom Italia Media Broadcasting s license to operate as a digital network operator.

These legislative changes have been viewed favourably by the EU Commission but it has asked for clarifications regarding the model for conversion to digital in Sardinia.

The EU Commission has questioned the mechanism for assigning the user rights of the frequencies used in Sardinia and especially the fact that the dominant analogue operators obtain more frequencies (hence digital networks) than those necessary for re-broadcasting on digital what is being broadcast on analogue thus constituting a special right in contrast to the European directive on competition.

The Italian Government and AGCom are trying to convince the EU Commission of the rationale behind the mechanisms adopted, which would also be directed to safeguarding the digital investments made by existing operators.

Disposal of 40% of digital MUX broadcasting capacity

In August, the Italian broadcasting regulator, AGCom, published a list of the parties, in order of priority, entitled to access 40% of the transmission capacity of the three digital network operators, RAI, Mediaset and Telecom Italia Media.

Some of the parties (including major foreign publishing houses), in favor of which portions of the aforesaid transmission were awarded, subsequently withdrew and, as a result, will not broadcast their channels over the Italian digital terrestrial network. The others are expected to commence broadcasting in 2009.

Telecom Italia Media Broadcasting s networks will host Air Plus, Jetixs and QVC.

v **EVENTS SUBSEQUENT TO DECEMBER 31, 2008**

The following events took place:

- on February 26, 2009, after interest was expressed by other parties, the Telecom Italia Media board of directors confirmed its intention of holding an auction to sell the digital assets of its Network Operator and named the investment bank Merrill Lynch as the financial advisor of this process;
- on February 26, 2009, as part of the steps aimed at regaining profitability announced with the Industrial Plan, the Telecom Italia Media board of directors began evaluating the possibility of allowing a partner to acquire a majority stake in TM News, owner of the APCom news agency.

4.2.5 OLIVETTI

The Olivetti Business Unit operates in the office products business in the sector of digital printing systems, ink-jet products for the office, the development and manufacturing of products associated with silicon technology (ink-jet print heads and MEMS Micro Electro-Mechanical Systems), and also specialized applications for the banking field and commerce, systems for managing forecast games and lotteries, e-vote and e-government. The reference market of the Business Unit is focused mainly in Europe and Asia.

As of December 31, 2008, the Olivetti Business Unit was organized as follows (the main companies are indicated):

4.2.6 OTHER TELECOM ITALIA GROUP OPERATIONS

The Other Operations of the Telecom Italia Group include its financial companies and the foreign operations which are not included in other Business Units (Sofora and ETECSA) and other minor companies not associated with the core business of the Telecom Italia Group.

v **TELECOM ARGENTINA GROUP**

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

Telecom Argentina group operates in the sectors of fixed-line and mobile telecommunications, Internet and data transmission in Argentina and also offers mobile services in Paraguay.

At December 31, 2008, land lines in service (also including installed public telephones) were approximately 4,299,000, an increase of 2% compared to December 31, 2007 (4,208,000).

In BroadBand, accesses totaled approximately 1,032,000 at December 31, 2008, an increase of more than 34% compared to the end of 2007 (768,000).

In the mobile business, the customer base of the group reached approximately 14,375,000 customers at December 31, 2008 (13% of which is in Paraguay), with an increase of about 17% compared to year-end 2007 (12,285,000). The number of postpaid customers also increased 17% compared to the end of December 2007 and continues to account for 31% of the total customer base. Mobile telephone customers who use TDMA services are only of a marginal relevance and concentrated solely in Paraguay. Overall, the customers using GSM services now stand at more than 99% of the total customer base.

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

v **ETECSA**

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

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

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

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

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

In return for these services we receive annual fees of 692,000 (for fixed line technical assistance) and 950,000 (for mobile technical assistance) under each agreement respectively and certain other fees for specific services provided equal to 1,385,000. The level of the fees earned over the last two years is set forth in Note Related Party Transactions of the Notes to our 2008 Consolidated Financial Statements included elsewhere herein. The technical agreement with respect to fixed line services, renewed at the beginning of 2007, will expire at the end of 2009 and the technical agreement with respect to wireless services expired at the end of 2008 and renewed for the period 2009-2011.

As we own only 27% of ETECSA we account for its results under the equity method. For further details see Note Other Non-Current Assets of the Notes to our 2008 Consolidated Financial Statements included elsewhere herein.

At December 31, 2008, the number of land lines in service (also including installed public telephones) was approximately 1,088,100, a 3% increase compared to December 31, 2007 (1,052,800). Of the lines in service, 51,500 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, 2008, the number of Internet and data customers has reached 25,800, almost 10% higher than at year-end 2007 (23,500).

In the mobile business, the customer base exceeds 331,700 users at December 31, 2008, an increase of more than 67% compared to December 31, 2007 (198,200). The number of customers with postpaid contracts constitutes almost 92% of customers and is equal to 303,600 (177,700 at December 31, 2007). The performance for the year benefits from the opening of the mobile market to Cuban citizens which took place on April 14, 2008 and the considerable reduction in activation charges which occurred on December 11, 2008.

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

4.2.7 COMPETITION

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

For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the Telecom Italia Group 4.2.1 Domestic , Item 4. Information on the Telecom Italia Group 4.2.2 Brazil , Item 4. Information on the Telecom Italia Group 4.2.3 European BroadBand , Item 4. Information on the Telecom Italia Group 4.2.4 Media and Item 4. Information on the Telecom Italia Group 4.2.5 Olivetti .

4.3 REGULATION

The E.U. regulatory framework

Business undertaken by Telecom Italia in the European Union are subject to the EU framework on telecommunications regulation (i.e. directives, to be implemented by Italy as member of the EU, Regulations and Recommendations).

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

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

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

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

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

The EU legal framework is currently being updated. The Commission adopted in November 2007 review proposals and it expects that the new framework will be in place from 2010 onwards.

Telecommunication Regulatory Framework in Italy

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

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

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

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

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

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

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

- Decree Law 112 of June 25, 2008 (converted into law, with modifications, by Article 1 of Law 133, dated August 6, 2008) containing in Article 2 BroadBand measures for the administrative simplification of the procedures for the installation and development of optical fiber networks.

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

- the Ministry is responsible for State functions and services in respect of postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector; The functions of the Ministry of Communications and its resources have been transferred to the Ministry of Economic Development since May 2008;

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

4.3.1 TELECOMMUNICATION REGULATION IN ITALY

Telecom Italia Undertakings

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

Telecom Italia proposed that a separate business unit, Open Access would be in charge of the management of the access network. Open Access would deliver wholesale services to both Telecom Italia s retail unit and Telecom Italia s Wholesale unit (one-stop-shop for alternative operators) according to a set of rules that would guarantee non-discrimination, through a number of specific commitments. The Open Access department was created by Telecom Italia at the beginning of 2008 and Telecom Italia undertook to submit any significant organizational change of this department to the prior approval of AGCom.

A Supervisory Board (with the majority of votes attributed to AGCom) will monitor the implementation of the undertakings through a set of indicators measuring the quality of the provisioning of wholesale services.

In December 2008, AGCom approved and made binding for Telecom Italia the Undertakings stating that they are adequate to strengthen equality of treatment conditions intended for alternative operators and to promote greater competition in the fixed network markets. Following the approval of the Undertakings, a number of sanction proceedings imposed on Telecom Italia were suspended and should be closed when the actual fulfillment of the undertakings are assessed.

In March 2009, Telecom Italia s Board of Directors appointed the 5 members of the Supervisory Board three of which were nominated by AGCom, including the Chairman in charge of controlling the proper implementation of the Undertakings.

In February 2009, AGCom appointed the chairmans of the other two governance bodies which Telecom Italia has undertaken to join, i.e. the NGN Committee, aimed at discussing and submitting to AGCom issues related to the migration to the new generation networks, and the Dispute Settlement Body (mirroring the experience of the British Office of Telecommunications Adjudicator).

Market analysis

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

Since December 2007, AGCom has opened various proceedings to carry out the second round of relevant markets analysis to determine whether to maintain, amend or withdraw the obligations in force. Also, markets, not included in the revised Recommendation, where remedies are in place must be re-assessed in order to justify either the withdrawal or the keeping of the regulation. Therefore AGCom will have to review more than 7 markets in its second round market analysis. During 2008 AGCom concluded the market analysis of the wholesale mobile markets (call termination and access and call origination; as to international roaming the EU Regulation is applied and AGCom will not review this market). The market analysis proceedings, for the fixed markets, were suspended until the AGCom approval of Telecom Italia s Undertakings, have been resumed and they should be closed within the year 2009.

The major developments in 2008 regarding markets in the electronic communications sector are described below.

- ***Retail fixed markets***

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

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

During 2008 the regulatory measures imposed on the basis of the first round market analyses were still in force, with the exception of the retail price caps in the fixed access market (market 1 and 2), which expired on December 31, 2007.

With respect to the access markets AGCom made it obligatory for Telecom Italia to provide the Wholesale Line Rental (**WLR**) service only in areas where unbundled access services are not requested by OLOs, with a price which is calculated starting from the retail subscription charges less 12%. Since the end of 2007, when marketing of the WLR service began, Telecom Italia has been authorized to offer bundled traffic-access rate plans. In August 2008 AGCom approved Telecom Italia s 2008 Reference Offer for WLR.

For further information, please see 4.2 Business Units .

- ***Wholesale fixed markets***

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

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

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

During the year 2008, the regulatory measures imposed on the basis of the first round market analyses were still in force, with the exception of the network cap in the unbundled (LLU) access market, which expired on December 31, 2007.

With reference to the Unbundled access, in October 2008 AGCom approved the price for LLU services for the year 2008 on the basis of cost orientation. The 2008 LLU Reference Offer (RO) increases the price for set-up fees, reintroduces an additional cost for line testing (suspended on a temporarily basis a few years ago) and reduced other cost elements like the price for collocation, and the monthly rental.

In December 2008, AGCom opened a public consultation on a draft measure concerning the LLU Reference Offer for the year 2009, providing for a LLU monthly rental fee at 8.55 (versus 7.64 provided for in the 2008 LLU RO), an increase of around 12%. On March 24, 2009 AGCom approved the increase of the LLU monthly wire rental fee to 8.49 Euro/month from January 1, 2009.

With reference to the BroadBand access, on February 1, 2008 Telecom Italia published the 2008 Reference Offer for bitstream services and on March 11, 2008 AGCom opened the assessment procedure of the Reference Offer for the year 2008. On March 24, 2009 AGCom approved a reduction of the ADSL access monthly rental fee from 9 Euro/month to 8.5 Euro/month for the period January 1, 2008-December 31, 2008.

Regarding access services (unbundled access services, bitstream and WLR), a Technical Panel has worked to define the technical procedures necessary for the activation of new accounts and the migration of customers. The migration procedures between operators related to access services and the related implemental actions have been agreed upon in a AGCom Statement of April 2008 and in a Framework Agreement of June 2008 signed by 22 Operators, including Telecom Italia.

With reference to call termination, in May 2008, AGCom adopted a Decision setting a new cost accounting model and a gradual drop from 2007 to 2010 of the termination rates for alternative network operators. For further information, please see 4.2 Business Units .

In July 2008, AGCom designated additional network operators as having SMP in the wholesale market for fixed call termination, imposing on the bigger infrastructure based alternative operators access and non discrimination and price control obligations.

- ***Mobile markets***

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

With reference to the market for access and call origination on mobile networks (former market 15, no longer included in the 2007 Recommendation), AGCom confirmed, in February 2009, that the analyzed market is competitive and therefore it does not warrant ex ante regulation

With reference to the market for voice call termination on mobile network (market 7, former market 16 of the 2003 Recommendation) in December 2008 AGCom adopted a Decision which provides a four year glide path setting the Maximum Termination Rate (**MTR**) for each SMP Mobile Network Operator and will eliminate the current asymmetry with the third entrant in 2011 and with the last entrant in 2012. For further information, please see 4.2 Business Units .

In the same Decision, AGCom also stated that it would develop, in 2009, and submit to public consultation a new cost model for MTR, taking into account the forthcoming EU Recommendation on the regulation of termination rates. After the new cost model is ready, AGCom could revise the MTRs with a new market analysis.

International roaming

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

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

Telecom Italia lowered wholesale and retail roaming tariffs in compliance with the Regulation in the summer of 2007 and 2008. Further reductions are mandated for the summer 2009. For further information, please see 4.2 Business Units .

Expiration date of current regulation is June 30, 2010.

In September 2008 the European Commission adopted a proposal to amend the Roaming Regulation and submitted it to the European Parliament and to the Council. The adoption is expected by April 2009. The Commission proposed to extend the Regulation for a further 3 years and to introduce, as of July 2009, additional price caps for wholesale and retail SMS tariffs (**Euro-SMS tariff**) and wholesale data. In addition, the Commission proposed to introduce further transparency obligations for retail data by introducing an expenditure cut-off limit in order to reduce bill shock events. The Commission proposed to review the Regulation by December 31, 2011.

SMS/MMS

In July 2008, AGCom and the Antitrust Authority launched a joint investigation on Short Message Services (**SMS**), Multimedia Messaging Services (**MMS**) and mobile data services, with the aim to verify the competitiveness of the retail market and the transparency of information provided to customers, also in order to evaluate possible interventions for consumer protection.

Mobile Number Portability and Pre-paid residual credit

With a Decision published in December 2008 AGCom set the new rules for Mobile Number Portability (**MNP**). AGCom cancelled the inter-operator charge, simplified the procedures and reduced the inter-operator time for porting the number from five to three working days.

AGCom s decision also forbids customers from cancelling MNP orders. Telecom Italia filed an objection to this Resolution with the Lazio Regional Administrative Court.

In June 2008, AGCom adopted a Decision stating that by the end of May 2009 mobile operators have to be compliant with residual credit transfer obligation in case of mobile number portability.

Spectrum issues

In October 2008, AGCom issued a Decision dealing with the procedure for the re-assignment and refarming (i.e. the possibility that the 900 and 1800 MHz frequency band can be re-organized and re-used for the development of 3G mobile systems 3G/IMT 2000-UMTS or of other possible technologies, equivalent and compatible according to the relevant applicable regulation) of the 900 MHz and the re-assignment of the 3 blocks of 2x5 MHz in the 2100 MHz band, returned to the Ministry by an UMTS operator which never entered the market (IPSE 2000). In particular:

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

Table of Contents

Item 4. Information On The Telecom Italia Group **Regulation**

In February 2009, the Ministry approved the plan submitted by Telecom Italia, Vodafone and Wind for the re-assignment of the 900 MHz band. The plan foresees two phases. The first phase (February-November 2009) concerns the re-allocation of the 900 MHz band. The second one (September 2011- December 2013) concerns the release of one 5 MHz block which should be assigned on the basis of a competitive selection to the 3G only mobile operator and to possible new entrants and used for 3G technologies with the introduction of roaming obligations.

The authorization to refarming will be granted to the existing GSM operators when they are ready to activate an UMTS carrier in the 900 MHz band on a part of the national territory including at least 20% of the population and after the entry into force of the EC Directive repealing the GSM Directive.

- ***2100 MHz frequency band***. On March 23, 2009, the Bando and the Disciplinare di gara was published. The 3 blocks of 2x5 MHz will be assigned on a national basis through a competitive selection procedure. Two of the 3 blocks may be acquired by existing mobile operators while a new entrant could compete for all 3 blocks. The minimum value for the procedure will be about 495.8 million for each block. If there will be no offers for this value the procedure foresees a new value which corresponds to about 88.9 million for each block.

  Coverage obligations are foreseen, similar to those considered for the UMTS auction. The new entrant will benefit by roaming for a maximum period of five years from the existing operators.

Wi-Max

In May 2008 the Ministry of Economic Development assigned through an auction the rights of use for frequencies at 3.4-3.6 GHz to offer BroadBand Wireless Access (BWA) services.

A total of 35 licenses at regional or local level, have been assigned, each of 2×21 MHz and lasting 15 years starting from May 21, 2008. Telecom Italia was granted three licenses in the macro-regions of central and southern of Italy and the island of Sardinia, for which it paid approximately 14 million. For further information, please see 4.2 Business Units .

Fixed-mobile integration services

In 2007, AGCom introduced a regulatory framework with specific reference to the fixed-mobile integrated services offered at that time by Vodafone (**Vodafone Casa**) and Telecom Italia (**Unico**). AGCom stated that it was still impossible to identify a separate market for integrated services, although there was a need to monitor competitive dynamics.

New numbering plan

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

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

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

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN). In addition from October 1, 2008, operators have been obliged to make, automatically, the permanent disconnection of all client lines who had not expressly opted for one of the available line barring services;
- a second ad hoc bill, provided on request, for charges relating to calls made to numbers offering premium rate services or, in alternative, an exposure in invoice of a specific box;

- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, settlement etc.);
- a free service, available on request, which alerts customers if they exceed a pre-determined expenditure threshold.

Quality of services of Internet access at fixed location

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

Universal Service

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

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

In March 2008 AGCom published a decision introducing a new method of calculation. Retroactive since 2004, it affects credits related to the Universal Service net cost of the years 2004 and 2005 (around 18 million) which has been consequently re-calculated and submitted to AGCom under the new terms.

Telecom Italia has lodged an appeal against the Decision which is pending.

With respect to 2006 and 2007, AGCom has not yet opened the proceedings for the evaluation of the Universal Service net costs.

Accounting separation and fixed network cost accounting

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

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

During 2008, the independent auditor appointed by AGCom to check Telecom Italia s accounting separation for the years 2002, 2003 and 2004, finished the auditing activities related to Regulatory accounts for the year 2002, 2003 and 2004 and began those related to the year 2005. Telecom Italia has also produced and delivered to AGCom the Regulatory accounts for the years 2006 and 2007.

In 2009, the auditor finished the auditing activities related to Regulatory accounts for the years 2005 and 2006 and delivered to AGCom all Reports provided for the year 2005 and the main reports related to 2006.

Accounting separation and mobile network cost accounting

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

During the year 2008, in compliance with Decision 3/06/CONS and in order to provide evidence of the costs underlying mobile termination services:

- regulatory Accounts at current costs for the year 2005 were produced and delivered (August) to AGCom;
- accounts at historical costs for the year 2006 were produced (and delivered in January 2009);
- the data collection process for the production of Regulatory Accounts at historical costs for the year 2007 were concluded in December 2008;
- the auditing activities by the independent auditor appointed by AGCom on the Regulatory Accounts of the mobile network for the year 2005 at historical costs and current costs has been launched and concluded.

In the year 2009, regulatory accounts at historical costs for the year 2006 were delivered to AGCom; the production of the regulatory accounting at current costs for the year 2006 was concluded; the production of the regulatory accounting at historical costs for the year 2007 has started. Finally, the auditing activities of the regulatory accounting at historical costs for the year 2006 should start in April.

AGCom fee for 2008

In January 2008, an AGCom Decision was published in the Official Journal setting out how operators should pay their annual contribution to AGCom for 2008 and the amounts to be paid. For the year 2008, a fee equal to 0.145 of turnover related to the year 2006 was owed to AGCom by companies operating in the communications sector. Telecom Italia paid, considering both fixed and mobile revenues subject to AGCom regulation, an amount of 21.5 million.

In November 2008, AGCOM issued the Decision on the payment of the fee for the year 2009, confirming the calculation methodology applied in the previous year (0.145 of 2007 revenues subject to AGCom regulation, to be paid by April 30, 2009).

4.3.2 PRIVACY AND DATA PROTECTION

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

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

The code applies to all processing within the State and its territories and affects also outside organizations that use equipment located in Italy, such as computer-based systems.

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

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

As for all forms of e-marketing, including e-mail, fax, SMS/MMS etc, the Code requires organizations to obtain prior consent before sending electronic marketing to consumers. The Code also prohibits sending e-marketing from anonymous addresses.

As for data retention, communications service providers (**CSPs**) are permitted to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and telematic traffic data for the purpose of detecting and preventing crime. In the course of

2008, data retention terms have been significantly reduced by Legislative Decree n. 109/2008. At present, data retention terms for crimes prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for telematic traffic; 30 days for unsuccessful call attempts.

Traffic data must be kept and controlled in compliance with the general provision issued by the Garante on January 17, 2008. TLC operators must adopt the prescribed security measures within the implementation deadline of April 30, 2009 (extended to June 2009 only for access control systems for call center operators).

4.3.3 Antitrust in Italy

Legislation on competition

Telecom Italia is obliged to observe Italian competition law.

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

The Antitrust Authority is responsible for:

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

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

Relevant proceedings in 2008

A/375 Proceeding

The Italian Competition Authority, in December 2008, decided to accept and render binding the commitments proposed by Telecom Italia within the investigation begun in October 2007 into the possible abuse of a dominant position in the markets for voice telephony and for retail BroadBand internet access services. Consequently, the case has been closed without officially establishing a violation.

The investigation was begun following a series of complaints lodged by Fastweb and Wind, claiming that Telecom Italia had adopted an aggressive marketing policy that selectively targeted former customers or customers who were switching to the competition, exploiting the privileged set of information held by Telecom Italia in its role as traditional owner of the network.

Specifically, Telecom Italia has committed to take measures in the following areas: 1) undertakings relating to winback or retention activities; 2) undertakings relating to use of information about own or competitors customers; 3) undertakings relating to agent incentives and disparagement; 4) undertakings relating to consumer protection.

The Undertakings shall remain in force for three years.

A/398 Proceeding

The Italian Competition Authority in August 2008, decided to accept and make binding the commitments proposed by the Company with regard to amounts owed by previous residents. Telecom Italia may no longer make the provision of a new telephone line conditional upon payment of the unpaid bills of another customer.

The investigation, begun in December 2007, closed without the finding of a violation.

As a result of the commitments, which were reformulated by Telecom Italia during the course of the proceedings, where a new line is applied for the company may demand payment of unpaid bills only of the customer in arrears and not, as previously, also of individuals or entities having company or personal links with the debtor. Telecom Italia has also reformulated its General Subscription Conditions to clarify explicitly that whoever takes over an existing line assumes the same legal position as the preceding customer, taking over any credits and accepting all the debts relating to the contract, including any payment due for services already provided.

In addition, the telephone company will no longer be able to make the activation of a new line conditional on the provision of capital guarantees by persons whose economic condition may prejudice payment of the service through being, for example, bankrupt or the subject of insolvency proceedings.

4.3.4 Telecommunication Regulatory Framework in Brazil

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

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

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

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

Authorizations

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

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

Interconnection rules

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

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

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

Significant Market Power (SMP) and instruments for cost orientation

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

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

Main regulatory developments in 2008

- *ANATEL approved PGR and PGO*

In October 2008, ANATEL approved the proposals for the General Plan for Telecommunications Regulation Updates in Brazil (**PGR**) and the General Plan for Concessions of Telecommunications Services (**PGO**).

PGR s final version sets out the necessary actions to be promoted by ANATEL for the next ten years, aiming to update telecommunications regulations in Brazil. The deployment of Local Loop Unbundling and Mobile Virtual Operator are included in the short term actions forecasted by PGR.

The review of the current PGO was considered a short-term action.

An important definition was the right of concessionaires to operate in two different geographic regions of PGO. This right allows the merger, forbidden under previous legislation, and approved in December 2008 by ANATEL, between the two major fixed line incumbents (Telemar/Oi Participações and Brasil Telecom).

- *Number Portability*

Number Portability (**NP**) in Brazil was introduced from September 2008 and its deployment will end in March 2009.

At the end of 2008, the total NP requests were around 180,000, 65% of which involved mobile networks.

NP has been considered crucial in the highly competitive Brazilian market, in which mobile phone penetration rates are already quite high, particularly in urban areas. For further information, please see 4.2.2. Brazil .

4.3.5 TELECOMMUNICATION REGULATORY FRAMEWORKS IN GERMANY AND THE NETHERLANDS

The regulatory framework in the European countries where Telecom Italia operates is the result of the national implementation of the European Framework as set out in the European Directives described under Item 4.3 Regulation The EU Regulatory Framework .

The respective regulatory frameworks are therefore comparable to Italy. In Germany and The Netherlands, individual operators with SMP (and attendant obligations) have been identified as a result of an analysis of the significant markets in those countries. In the retail markets, the companies pertaining to Telecom Italia Group were not notified as having significant market power in their respective countries.

4.3.6 BROADCASTING REGULATORY FRAMEWORK IN ITALY

Reference Law for broadcasting

In June 2008, Law No. 101 abolished the special licensing regime for digital terrestrial network operators and introduced the authorization regime. As a consequence, a network operator no longer needs to own a digital network covering at least 50% of population, nor to be a broadcasting operator nor to invest 35 million for each digital network, nor to have a minimum nominal share capital.

All participants are allowed to trade frequencies following law 259/03 rules.

The licenses just granted have been converted to general authorizations lasting 20 years.

The Communication Ministry has acknowledged the conversion of Telecom Italia Media Broadcasting s license into general authorization for the purpose of managing its digital Multiplex (**MUX**).

Switch-off and frequencies

The complete switch-off of analogue and conversion to a digital network will take place by December 31, 2012. By the end of 2010, 70% of the population will go digital.

In November 2008, the Communication Ministry published the New Allotment Bandwidth Plan that adjusts the frequencies used in international arrangements foreseen by the 2006 Genéve Plan.

Television advertising

From December 1, 2008 the rules on television advertising amended by AGCom came into force: (i) self-promotion must follow the same rules of advertising in terms of being recognizable and separate from TV content; (ii) minimum duration of teleshopping windows 15 minutes and inclusion of teleshopping spots 3 minutes in advertising time.

Law 101/2008 introduced new rules making the enforcement system more effective and increasing penalties.

Co-location service (market 18)

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

Promotion of European works

On the basis of the 2008 Budget Law new quotas were introduced as regards Italian films and TV programs for minors. In addition a new investment obligation for IPTV and Mobile TV service providers was introduced.

On the basis of the Milleproroghe Decree , Telecom Italia Media will be able to apply for an exemption on the transmission and investment quotas for broadcasters.

For details please also see Item 4. Information on the Telecom Italia Group 4.2.1 Domestic , Item 4. Information on the Telecom Italia Group 4.2.2 Brazil , Item 4. Information on the Telecom Italia Group 4.2.3 European BroadBand , Item 4. Information on the Telecom Italia Group 4.2.4 Media and Item 4. Information on the Telecom Italia Group 4.2.5 Olivetti .

4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

3G (third-generation Mobile System): Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity.

3G networks 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.

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

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.

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

Analog network: A network using analog technology with circuit switching, capable of connecting one user with all the others, but with limited transmission capacity.

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

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

Backbone: Network portion with the highest traffic density and from which the connections for services in the local areas depart.

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

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

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

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

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

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

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

BWA (BroadBand Wireless Access): Technology aimed at providing wireless access to data networks, with high data rates and providing data transmission up to a theoretical limit of 52 Mbit/s downstream and 12 Mbit/s upstream over a single twisted pair of wires. VDSL is capable of supporting high bandwidth applications such as HDTV. From the point of view of connectivity, BroadBand wireless access is equivalent to BroadBand wired access, such as ADSL or cable modems. One particular BroadBand wireless access technology is being standardized by IEEE 802.16 also known as WiMAX.

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

Carrier: Company that makes available the physical telecommunication network.

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

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

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

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

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

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

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

Coaxial cable: A type of electrical cable in which a central conductor covered by an insulator is then surrounded with a cylindrical conducting sheath whose axis coincides with that of the central conductor, hence the term coaxial .

Corporate Network: A network, which can be a virtual private network, provided by a corporation for its own use and possibly for that of other corporations. The network s features are tailor-made to address the specific needs of the client. It is separate from the network provided by the national telecommunications carrier, but it may be connected to the latter for the use of selected facilities.

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

CVP (Permanent Virtual Channel): Transparent high-capacity flow of data between the customer premises and the network of the incoming Operator that Telecom Italia is obliged to provide to the licensed operators in all cases where the same Telecom Italia, through its commercial divisions, subsidiaries, parents, or related subsidiaries, intends to provide services to customers using technology xDSL access systems.

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

Data Network Access Point: Unit of measurement used in the data network business.

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

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

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

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

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

District traffic: Long distance telephone calls within the same area code.

DNC (Direct Numerical Circuit/Control): Dedicated digital line allowing point-to-point, or point-to-multipoint connections through digital technology. It can be used for example for a web server connection to the Internet.

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

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

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

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

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

ETSI (European Telecommunications Standards Institute): A not-for-profit enterprise whose mission is to produce the telecommunications standards that will be used throughout Europe. Some of the standards developed by the ETSI may be adopted by the European Commission as the technical base for directives or regulations. The ETSI s main task is to remove any possible variation from a global standard and to focus on a defined European-specific set of requirements. The ETSI also ensures that there is interoperability between standards, such as Integrated Services Digital Network (ISDN), Global Systems for Mobile Communications (GSM) and Universal Mobile Telecommunications System (UMTS).

Exchange: See Switch.

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

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

FTT HOME, FTT CURB, FTT (*Fiber to the*)**:** It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user s location. In the case of **FTT Curb** (Fibre to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of **FTTHome** (Fibre to the Home), the fiber connection terminates inside the customer premises.

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

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

GPRS (General Packet Radio Service): This is the data service for GSM and is the European standard digital cellular service.

GPS (Global Positioning System): A constellation of satellites, orbiting the Earth twice a day, that is able to pinpoint precisely the location of a certain object on Earth.

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

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

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

HCFC (Hydrochlorofluorocarbons): Hydrochlorofluorocarbons: chemical molecules mainly used in cooling plants to replace chlorofluorocarbons, which have been banned by the Montreal protocol, due to their relatively limited ozone-depleting effect (approximately 10% of the ozone-depleting rating of CFC).

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

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

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

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

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

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

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

IN (Intelligent Network): Network architecture that centralized processing of calls and billing information for calls.

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

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

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

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

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

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

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

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

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

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

LCA (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: 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 .

MAS (Metro Access System): A network element based on CWDM (Course Wavelength Division Multiplexing) technology.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PABX (Private Automatic Branch Exchange): Telephone switchboard for private use, but linked to the national telephone network.

Pard CDN: Points of access to a data network realized by direct digital circuits.

Pard CDA: Points of access to a data network realized by direct analog circuits.

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

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

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

PCS: Personal communications services.

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

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

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

Table of Contents

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

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

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

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

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).

RoF (Radio Over Fiber): A technology to feed antennas with digital/analogue signals over optical fiber.

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.

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

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.

Satellite services: Satellites are used, among other things, for links with countries that cannot be reached by cable or as an alternative to cable and to form closed user networks.

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

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

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

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

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

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

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

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

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

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

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

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

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

Switched Transit Traffic: Calls placed between two other countries that are routed through the Italian fixed network.

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

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

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

TRX: Radio transceivers located in BTS.

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

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

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

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

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

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

VAN (Value-Added Network): A type of public network that leases basic transmission facilities from a common carrier, adds features that enhance the service and provides the improved communications capability to end users. Automatic alternate routing network management and error correction are examples of the value added.

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).

Videotext: A service pursuant to an ITU standard, permitting remote access to a database by telephone.

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

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

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

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

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

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

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

Wi Max (Worldwide Interoperability for Microwave Access): The Wi - MAX - is a technology that allows wireless access to BroadBand telecommunications networks. It is defined by the Wi - MAX Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

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

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

4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

General

As of December 31, 2008 and 2007, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2008				As of December 31, 2007			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of Euro, except percentage)							
Land	123		123	0.8	131		131	0.8
Civil and industrial buildings	493	1,302	1,795	11.5	551	1,361	1,912	11.3
Plant and equipment	12,037	37	12,074	77.1	12,957		12,957	76.5
Manufacturing and distribution equipment	38		38	0.2	48		48	0.3
Ships	33		33	0.2	41		41	0.3
Aircraft		3	3			6	6	
Other	857	16	873	5.6	965	30	995	5.9
Construction in progress and advance payments	671	52	723	4.6	791	53	844	4.9
Total	**14,252**	**1,410**	**15,662**	**100.0**	**15,484**	**1,450**	**16,934**	**100.0**

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

Real Estate (Land, Civil and Industrial Buildings)

As of December 31, 2008, Telecom Italia S.p.A. owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

On December 31, 2008, Tim Brasil group owned approximately 93,624 square meters and leased approximately 866,154 square meters of real property, all of which were available for installation of our equipment. Tim Brasil group also leases approximately 145,966 square meters and owns approximately 62,971 square meters of office space.

Network Infrastructure (Plant and Equipment)

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

Domestic Fixed Network

General. Our domestic fixed network consists of 33 gateway areas (each gateway area has two interconnection points enabling information to be exchanged between the fixed and mobile networks) and 628 main local switches (only for fixed OLOs). Each local switch belongs to only one of the 33 gateway areas. The long-distance fixed network (Arianna SDH and Phoenix) routes 4190 VC4. The fixed long distance network also includes 85 2.5 Gbps point to point lambdas and 342 10 Gbps point to point lambdas. The fixed distribution network includes 109.3 million km of copper pairs.

At December 31, 2008, the domestic fixed network consisted of the following:

Exchange areas	approximately 10,400
Switching areas	628 Urban Group Stages (SGU)
Gateway areas	33
Copper access network	109.3 million kilometers-pair
Fiber optic access/carrier network	3.9 million kilometers-line
Long Distance VC4 eq (total)	4,700
Long Distance VC4	4,190
Long Distance Lambda	82 2.5 Gbps, 342 10 Gbps
BroadBand/ADSL network	8,363 local switching areas covered
IPTV (Internet Protocol TV)	1,119 local switching areas covered
POP main data networks	32

SDH and ATM. Our Synchronous Digital Hierarchy (**SDH**) transmission systems are operating on fiber optics from 155 Mbit/sec up to 10 Gbit/sec. Work on the development of the national network (Long distance) that, by use of the latest generation of SDH technologies and the optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for the transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2008. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 40 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

In November 2002, Telecom Italia introduced a new generation of Optical Digital Cross Connect (**ODXC**) on the domestic fixed transmission backbone in order to progress with the transition from a national network based on a SDH rings architecture, towards the new generation of meshed ASTN (Automatically Switched Transport Network) optical backbone. In 2008, Telecom Italia did not add any ODXC nodes but increased the capacity of existing links and nodes. The evolution of the transport network towards a completely optical network will increase the operating capacity for all types of traffic, from voice to Internet.

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

OPB (Optical Packet Backbone). In 2008 we continued to implement the introduction in the network of Terarouter equipment, deployed in some of the most important PoPs of the network. At the end of 2008 OPB Network had Terarouter nodes in the following thirteen PoPs: two Centro Stella PoPs in Rome, two Centro Stella in Milan (Inner Core PoPs) and the OPB PoPs located in Naples, Turin, Florence, Palermo, Bari, Bologna, Brescia, Padua and Catania (Outer Core PoPs).

The OPB network is used to transport:

- Internet traffic of residential, business and Wholesale customers;
- VPN traffic (Virtual Private Network) of business customers;
- Voice traffic;
- Video traffic related to IPTV services.

OPM (Optical Packet Metro). At the end of 2008 OPM consists of 30 metro-regional networks to collect traffic to and from residential customers through DSLAM IP to supply the IPTV and ADSL2+ services. The OPM network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) transport, aggregation as well as direct connection (Node B over optical fiber).

Table of Contents

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

Gigabit Ethernet Access. Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway and Genius services on GBE optical access). In 2008, coverage of services with GBE optical access was extended to the towns of L Aquila, Pescara and Bergamo. As a result, overall coverage increased from 33 to 36 towns in Italy.

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

BroadBand/ADSL network. Telecom Italia s BroadBand network can offer hi-tech telecommunications services and multimedia applications. This objective is being reached through the gradual installation of fiber optic cables. In 2008, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 6,676 towns (compared to 6,074 at the end of 2007). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2008, 8,363 local switching areas were covered by ADSL technology, (compared to 7,568 at the end of 2007).

NGN FTTx. In 2008 Telecom Italia started to deploy a new generation access network, based on fiber optical cables and GPON (Gigabit capable Passive Optical Network) technology. First deployments have been done using FTTB (Fiber To The Building) architecture and new generation cabinets, equipped with VDSL2 cards, have been installed in approximately 2,700 buildings in the central area of Milan. Fiber optical deployment interested 7 central areas, where Telecom Italia laid new optical cables or acquired the right of use (IRU approach) for 15 years on fiber optics from Metroweb (a utility that already owns a widespread optical access network in Milan).

Fiber optic cables. At December 31, 2008, approximately 3.9 million kilometers of fiber optic cables have been installed for access and transport, of which approximately 1.2 million kilometers are installed in the long-distance network. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video. To make these services more widely available, Telecom Italia is evaluating the introduction of fiber optics to the access network.

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

IPTV (Internet Protocol TV). Quadruple play is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and able to supply a vast range of services. IPTV is an important part of this evolution. In 2006 the first commercial service was launched, involving 836 exchange areas and 258 towns. In 2008 the commercial service with access to IPTV technology has been expanded to 1,119 exchange areas (compared to 1,019 at the end of 2007). IPTV is considered a key component in providing customers with access to information in any form, anywhere, through fixed and mobile infrastructures as the situation demands.

Domestic Mobile Network

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

The Telecom Italia GSM/EDGE network consists of 14,301 radio base stations (compared to 14,018 at December 31, 2007, an increase of 2%) and 754,632 radio channels (an increase of 2.3% compared to 737,208 at the end of 2007). The network also includes 458 Base Station Controllers (**BSC**) (an increase of 2 units compared to December 31, 2007).

During 2008 planning and implementation of the UMTS network continued, so that coverage was extended to all the regional capitals, in accordance with the obligations laid down in the 3G license, as well as other areas throughout Italy. The Telecom Italia UMTS network consists of 11,256 radio base stations (compared to 9,787 at December 31, 2007, an increase of 15%) and 1,683,440 radio channels (an increase of 41.6% compared to 1,188,544 at the end of 2007).

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

At the end of 2008 all UMTS stations are able to perform HSDPA ph1 and ph2.

Also operating on the network are 84 Radio Network Controllers (**RNC**) (an increase of 12 units as compared to the end of 2007).

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

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

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

At December 31, 2008, the GSM network includes: 53 MSC exchanges, 10 transit exchanges and 9 gateways.

At December 31, 2008, the GSM/UMTS network includes: 43 MSC servers, 60 MGWs, 48 Home Location Registers (**HLRs**), 13 Gateway GPRS Support Nodes (**GGSNs**) and 36 Serving GPRS Support Nodes (**SGSN**).

International Fixed Network

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

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

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

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

The cross-border backbone integrates 3 regional networks:

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

In detail:

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

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

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

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

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

In 2008 the international Internet traffic increase was supported by the expansion of the European backbone, of transatlantic links and of the USA network. In particular, new Terabit Routers have been deployed in Palermo, Frankfurt and Paris and the Telecom Italia Sparkle Singapore subsidiary upgraded the local POP.

In order to increase connectivity towards the Mediterranean and the Middle and Far East countries, upgrades of the SEA-ME-WE3 and SEA-ME-WE4 submarine cables have been implemented. Telecom Italia Sparkle has also joined the consortium that will build the new IMEWE cable due for service at the end of 2009. This new system will link France, Italy, Egypt, Lebanon, Saudi Arabia, United Arab Emirates, Pakistan and India with an ultimate capacity of 3.84 Tbit/s. The connectivity among main cable stations and the POPs of the Pan-European cross-border backbone was expanded as well.

In 2008 the new Ultra Long Haul DWDM platform was deployed on our Pan European backbone in Italy, Switzerland, Germany, The Netherlands and United Kingdom with the aim to develop new services and upgrade significantly the network capacity.

Actions to complete the services portfolio for mobile operators included the introduction of encrypted transport capabilities for signaling over the Internet (SIGTRAN with IP-sec).

As for the retail services offer to Multi National Corporates, new POPs were deployed in Tunis, Lisbon and Hong Kong.

Brazilian Network

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

As of December 31, 2008, we had 91 mobile switches and 12,014 radio base stations. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

Table of Contents

Item 4A. UNRESOLVED STAFF COMMENTS

None.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES

Increased competition continues to have a significant impact on the development of our business.

Key trends that have had an impact on our business areas and are expected to continue to have an impact are:

Domestic Business Unit

- defence of Domestic Market share and focus on quality as a value driver through the implementation of the customer driven organization;
- continuing defence of core traffic and access businesses with possible stabilization of market share on both Fixed and Mobile Telecommunications;
- convergence of services such as fixed and mobile voice offers, fixed and mobile BroadBand accesses, integrated accesses to messaging and content;
- growth of the Italian BroadBand market on both Fixed and Mobile Telecommunications;
- development of innovative services such as integrated voice-BroadBand and new offers on Fixed (i.e. VoIP and IPTV services) and Mobile Telecommunications (i.e. Interactive value added services);
- growth of the ICT Market through the introduction of new services and products;
- the creation of the open Access network increasing transparency and access to the fixed network by OLOs; and
- decreasing impact on revenues quarter on quarter of 2008 attributable to regulatory developments, of which the most important were roaming and termination charges.

Brazil

- the introduction in 2008 of 3G services in Brazil and the launch of TIM Fixo (Fixed TIM) which allowed Tim Brasil to proceed with its convergence strategy, by offering the widest communication services portfolio in the market, including mobile service, broadband, pay TV (through partnerships) and the home fixed service.

European BroadBand Business Unit

- continuous growth of the BroadBand market, with an increasing focus on churners;
- evolution of technology and regulation related to next generation networks and fiber investments;
- competition mainly due to the incumbent, cable and mobile operators;
- growth of integrated fixed-mobile offers; and
- market consolidation.

5.2 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Revenue recognition

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

- *Revenues from services rendered*

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

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

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

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

- *Revenues from sales and bundled offerings*

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

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

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

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

- *Revenues on construction contracts*

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

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

Allowance for doubtful accounts

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

Accounting for tangible and intangible non-current assets

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on Management s judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Acquisition accounting, goodwill and purchase price allocation

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities and contingent liabilities assumed, is critical due to the long-term impact on the income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed.

The purchase price allocation requires that all assets, liabilities and contingent liabilities be valued and that significant estimates be made. A change in any of these estimates or judgments could change the amount to be allocated to a particular intangible or tangible asset. The resulting change in the purchase price allocation to non-goodwill assets or liabilities has a direct impact on the final amount of the purchase price that cannot be allocated to a particular asset (i.e., goodwill).

If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;

- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the income statement.

Accounting for transactions on interests in group companies

We have entered into certain transactions on interests in Group companies, and in the future we may make further similar transactions.

In relation to transactions regarding interest in companies already controlled, under IFRS, in the absence of a Standard or a specific Interpretation on the matter and referring to IAS 8 (*Accounting policies, changes in accounting estimates and errors*), we have applied the following accounting treatments, identifying two types of transactions:

- *acquisition/sale of interests in companies already controlled*: in the case of acquisitions, the Group pays the minority interests in cash or by new shares and, at the same time, eliminates the relative share of the minority interest and records Goodwill equal to the excess of the acquisition cost over the carrying amount of the corresponding portion of assets acquired and liabilities assumed. In the case of sales, the difference between the proceeds from the disposal of shares and the corresponding carrying amount in the consolidated financial statements is recognized in the income statement (*Parent entity extension method*);
- *intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership*: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. The minority interest which does not directly take part in the transaction is adjusted to reflect the change in the respective share of equity with a corresponding opposite effect on the equity attributable to the equity holders of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

The treatment of purchase price allocation is also affected by the considerations expressed in the third, fourth and fifth paragraphs of *Acquisition Accounting, Goodwill and Purchase Price Allocation* above.

Impairment of assets

The determination of impairments of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

- ***Goodwill.*** Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The impairment test is generally conducted near the end of every year so the date of testing is constituted by the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment by 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 of the cash-generating units or groups of cash-generating units that is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the business segment determined in accordance with IAS 14 (*Segment Reporting*).

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 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. 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 minority interest.

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. If indicators of an impairment exists, the carrying amount of the assets is reduced to the recoverable amount. 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 income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets, groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

Financial assets

Financial assets include, in particular, investments some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment s carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and relies heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

Derivative financial instruments

Telecom Italia enters into several different types of derivative contracts in order to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the hedged transaction affects the income statement. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. The Group relies on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

Employee severance indemnities

Employee severance indemnities are a form of post employment benefit, mandatory for Italian companies. They have the nature of deferred compensation and are based, among other things, on the employee s years of service and the remuneration earned by the employee during the service period.

Under IAS 19, the employee severance indemnity is classified as a defined benefit plan, except when employees, starting from the year 2007, choose to devote their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the State Social Security Institute (INPS); in such case employee severance indemnity is classified as a defined contribution plan.

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit costs may be materially affected.

Provisions and contingent liabilities

The Group exercises considerable judgment in determining its exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

Income tax expense

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company s ability to generate sufficient taxable income in future years and the reversal of temporary liabilities, taking into account any restrictions on the carryforward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the income statement.

5.3 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2008

5.3.1 Reorganization of Business

On January 22, 2007, in response to important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of strategies associated with the convergence of the various areas of business (fixed and mobile telecommunications, BroadBand internet and media contents).

Accordingly, starting in 2007, the disclosure by business segment was changed and the accounting segments are now as follows:

- **Domestic Business Unit:** the domestic operations of Fixed Telecommunications (divided into Retail voice, Internet, Data Business and Wholesale) and Mobile Telecommunications as well as the relative support activities;
- **Brazil Business Unit:** includes Telecommunications activities in Brazil;
- **European BroadBand Business Unit:** includes BroadBand services in Germany and The Netherlands;
- **Media Business Unit:** includes Television and News activities;
- **Olivetti Business Unit:** includes activities for the manufacture of digital printing systems and office products;
- **Other Operations:** include financial companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

For a complete description of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units . For purposes of the following discussion selected financial data of each Business Unit has been provided for 2008, 2007 and 2006 consistent with the structure of each Business Unit at December 31, 2008.

5.3.2 Non-GAAP Financial Measures

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (**Non-GAAP Measures**). Such financial data is considered Non-GAAP financial measures as defined in Item 10 of Regulation S-K under the 1934 Act.

As described in more detail below, such financial data is presented as additional information for Telecom Italia s investors and should not be considered as substitutes for or confused with IFRS financial measures**.**

In this Annual Report the Non-GAAP Measures used relate to Net Financial Debt and Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA).

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Minority Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or Net Financial Debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,	
	2008	2007
	(millions of Euro)	
GROSS FINANCIAL DEBT		
Non-current financial liabilities (Long-term debt)		
Financial payables	31,936	33,299
Finance lease liabilities	1,713	1,809
Other financial liabilities	2,878	1,943
	36,527	**37,051**
Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		
Financial payables	5,726	5,943
Finance lease liabilities	274	262
Other financial liabilities	267	380
	6,267	**6,585**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		
GROSS FINANCIAL DEBT (A)	**42,794**	**43,636**
FINANCIAL ASSETS		
Non-current financial assets		
Securities other than investments	15	9
Financial receivables and other non-current financial assets	2,648	686
	2,663	**695**
Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale		
Securities other than investments	185	390
Financial receivables and other current financial assets	491	377
Cash and cash equivalents	5,416	6,473
	6,092	**7,240**
Financial assets classified under Discontinued operations/Non-current assets held for sale		
FINANCIAL ASSETS (B)	**8,755**	**7,935**
NET FINANCIAL DEBT (A-B)	**34,039**	**35,701**

80

Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (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 is also used to calculate certain ratios such as Net Financial Debt to EBITDA using by rating agencies in considering the ratings in our outstanding debt. 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 Operating profit. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, to profit before tax from continuing operation and operating income, the most directly comparable financial measures calculated and reported in accordance with IFRS.

	As of December 31,		
	2008(1)	2007(1)	2006(1)
Profit before tax from continuing operations	**2,897**	**4,324**	**5,723**
Finance expenses	6,358	5,092	5,011
Finance income	(3,724)	(2,908)	(2,811)
Other expenses (income) from investments	(4)	(467)	(237)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(64)	(86)	(51)
Operating profit	**5,463**	**5,955**	**7,635**
Impairment losses (reversals) on non-current assets	33	44	22
Losses (gains) on disposals of non-current assets	(35)	(5)	(105)
Depreciation and amortization	5,906	5,674	5,393
Operating profit before depreciation and amortization, capital gains (losses) realized and Impairment reversals (losses) on non-current assets (EBITDA)	**11,367**	**11,668**	**12,945**

(1) Starting from January 1, 2008, the Liberty Surf group has been treated as a Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. All periods presented for comparison purposes have been restated.

EBITDA is not a measure of performance under IFRS and EBITDA should not be considered an alternative to (a) operating profit or net income (as determined in accordance with IFRS), as a measure of our operating performance, (b) cash flows from operating, investing and financing activities (as determined in accordance with generally IFRS) as a measure of our ability to meet cash needs or (c) any other measures of performance under IFRS. Because not all companies calculate EBITDA in the same manner, the presentation of EBITDA may not be comparable to the EBITDA of other companies.

5.3.3 Overview of 2008 Results of Operations

In 2008, regarding our domestic market we achieved the following:

- In the **Domestic Fixed Telecommunications Services Business** BroadBand and ICT were the two major growth drivers. In particular in the BroadBand business the strategy premised on attracting the most valuable customers progressed: the BroadBand portfolio at the end of December 2008 was at 6.8 million accesses. In addition, we launched new integrated solutions such as VoIP services (offers that included the first naked triple-play offer) and IPTV services, with nearly 330,000 accesses at December 31, 2008 and a penetration of approximately 5% of the overall BroadBand customer base.

In the ICT segment we posted approximately 18% growth year over year (of which 22% growth in services, accounting for 59% of revenues mix) due to specific turn-key offers for the Corporate and SME segment.

In the traditional Telephone business, we have been affected by a significant decrease in our customer base and traffic volumes due to increased competition, largely attributable to the introduction of new wholesale solutions. In the traditional telephone business the main strategy is to increase penetration of flat-rate voice packages and the proposition of the quoted integrated voice-BroadBand offers.

Table of Contents

- The **Domestic Mobile Telecommunications Services Business** focused on strategies to increase its customer portfolio value by increasing post-paid access lines (17.3% of total lines at year end 2008 compared to 14.7% at year-end 2007) and value added services. This strategy resulted in a web BroadBand active portfolio of 2.6 million users (more than twice the customer base of last year), a strong increase in VAS revenues and strong growth in innovative handsets and internet devices (3G, Netbook, Internet Key, IPhone), which accounted for 62% of handsets sold in 2008 versus 46% in 2007.

In 2008, we achieved the following with respect to our international markets:

- **Brazil.** Tim Brasil had a market share of 24.2%. Tim Brasil s market share of service revenues, its primary focus, stood at around 27%. As for client mix, post-paid customers accounted for 18.1% of the total subscriber base, with 6,600 thousand post-paid customers.

Tim Brasil continued to focus on growth together with cost discipline through initiatives to maintain ARPU (average revenue per user) levels and increase revenue from value-added services. On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analysis and operating expenses.

- **Germany.** In a very competitive German BroadBand Access Market, HanseNet focused mainly on the following strategic goals:

Innovation of the rate plans:

consolidation of customer loyalty through the introduction, across the entire range of rate plans, of the option of binding 24-month contracts, associated with specific commercial promotions;

launch of the Alice Comfort rate plans based on a Premium level of customer service, enhancement of the Alice Mobile service through the introduction of new Flat-rate options and development of the IPTV service premium (Pay-TV and VOD) components;

launch in the last quarter of the year of the Bitstream offering in areas not covered by Unbundling, to replace the previous Resale offering;

continuation of activities for the up-selling of Alice rate plans to the existing AOL customer base.

Improvement in the quality of service, by reducing activation times, strengthening the VoIP service and re-defining Customer Care processes with a positive impact on customer retention.

Consolidation of the Alice brand and raising Brand Awareness, with the launch of various communication activities (in particular, in 2008, a new advertising campaign was launched with a testimonial from Brad Pitt).

Extension of network coverage, especially through the partners Telefónica and QSC (1,815 unbundling sites at the end of December, whereas the number of unbundling sites of the proprietary network remains stable at 897): as of December 31, 2008, the ULL network coverage of the Alice offer reached 69% of German Households.

Table of Contents

Item 5. Operating And Financial Review And Prospects **Results Of Operations For The Three Years Ended December 31, 2008**

The following table sets forth the income statement for the years ended December 31, 2008, 2007 and 2006.

	Year ended December 31,		
	2008	2007	2006
	(millions of Euro)		
Revenues	30,158	31,013	31,037
Other income	356	406	590
Total operating revenues and other income	**30,514**	**31,419**	**31,627**
Acquisition of goods and services	(13,876)	(14,255)	(13,902)
Employee benefits expenses	(4,220)	(3,822)	(3,741)
Other operating expenses	(1,696)	(2,231)	(1,524)
Changes in inventories	114	11	8
Internally generated assets	531	546	477
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets(1)	**11,367**	**11,668**	**12,945**
Depreciation and amortization	(5,906)	(5,674)	(5,393)
Gains (losses) on disposals of non-current assets	35	5	105
Impairment reversals (losses) on non-current assets	(33)	(44)	(22)
Operating profit	**5,463**	**5,955**	**7,635**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	64	86	51
Other income (expenses) from investments	4	467	237
Finance income	3,724	2,908	2,811
Finance expenses	(6,358)	(5,092)	(5,011)
Profit before tax from continuing operations	**2,897**	**4,324**	**5,723**
Income tax expense	(653)	(1,683)	(2,520)
Profit from continuing operations	**2,244**	**2,641**	**3,203**
Profit (loss) from Discontinued operations/Non-current assets held for sale	(29)	(186)	(200)
Profit for the year	**2,215**	**2,455**	**3,003**
Of which:			
• *Profit attributable to equity holders of the Parent*	*2,214*	*2,448*	*3,014*
• *Profit (loss) attributable to Minority Interest*	*1*	*7*	*(11)*

(1) Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA) is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see 5.3.2 Non-GAAP Financial Measures .

83

Table of Contents

5.3.4 BUSINESS UNIT FINANCIAL DATA

The table below sets forth revenues, operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA), operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated. The data relating to 2007 and 2006 have been reclassified and presented consistently with the 2008 presentation.

		Domestic	Brazil	European Broad Band	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of Euro, except number of employees)							
Revenues(1)	2008	23,268	5,208	1,274	287	352	134	(365)	30,158
	2007	24,220	4,990	1,151	263	408	251	(270)	31,013
	2006	25,785	3,964	605	207	440	234	(198)	31,037
EBITDA(2)	2008	9,998	1,217	245	(59)	(30)	11	(15)	11,367
	2007	10,174	1,207	297	(55)	(44)	94	(5)	11,668
	2006	11,893	950	176	(83)	(33)	49	(7)	12,945
Operating profit (loss)	2008	5,444	189	(30)	(113)	(37)	2	8	5,463
	2007	5,751	150	122	(117)	(66)	63	52	5,955
	2006	7,676	21	73	(137)	(50)	37	15	7,635
Capital expenditures	2008	3,658	1,348	352	50	3	1	(47)	5,365
	2007	4,064	865	358	69	8	16	(10)	5,370
	2006	3,894	699	214	85	10	21	(46)	4,877
Number of employees at year-end(3)	2008	61,816	10,285	2,912	967	1,194	651		77,825
	2007(4)	64,362	10,030	3,191	1,016	1,279	2,191		82,069
	2006(4)	66,835	9,531	1,784	919	1,428	1,430		81,927

(1)

Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA) is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see 5.3.2 Non-GAAP Financial Measures .

(3) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temp work contracts.

(4) For purposes of comparison, the data at December 31, 2007 and at December 31, 2006 have been restated in order to exclude 1,360 employees and 1,282 employees, respectively, of the Liberty Surf group which starting from January 1, 2008, are considered as Discontinued operations/Non-current assets held for sale.

5.3.5 YEAR ENDED DECEMBER 31, 2008 COMPARED WITH YEAR ENDED DECEMBER 31, 2007

v **MAIN CHANGES IN THE SCOPE OF CONSOLIDATION**

Liberty Surf group, operating in the BroadBand sector in France, was disposed of on August 26, 2008. For purposes of the results of operations in 2008 and 2007, it was classified as Discontinued operations/Non-current assets held for sale.

In 2008, the scope of consolidation reflects the following changes:

- the exclusion of Entel Bolivia from the scope of consolidation starting from the second quarter of 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the Entel Bolivia shares held by the Telecom Italia Group. The investment is now carried in Current assets;

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

In 2007, the scope of consolidation reflects the following changes:

- the inclusion of the AOL group companies in Germany, purchased at the end of February 2007, consolidated from March 1, 2007;

- the inclusion of InterNLnet B.V. (a Dutch company acquired by BBNed in July 2007);

Table of Contents

- the inclusion of Shared Service Center S.r.l. (consolidated line-by line from October 2007), following the acquisition of control by the Parent in the fourth quarter of 2007. The company had previously been carried in the financial statements using the equity method.

The following chart summarizes the main items which impacted profit attributable to the equity holders of the Parent in 2008:

v **REVENUES**

Revenues amounted to 30,158 million in 2008, a decrease of 855 million, or 2.8%, compared to 31,013 million in 2007.

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit and the percentage of their contributions to our consolidated revenues.

	Year ended December 31,					
	2008		2007		Changes	
	Gross Revenues(1) (a)	% of Consolidated revenues	Gross Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of Euro, except percentages)					
Domestic	23,268	77.2%	24,220	78.1%	(952)	(3.9)%
Brazil	5,208	17.3%	4,990	16.1%	218	4.4%
European BroadBand	1,274	4.2%	1,151	3.7%	123	10.7%
Media, Olivetti and Other Operations(2)	773	2.6%	922	3.0%	(149)	(16.2)%
Adjustments and eliminations	(365)	(1.3)%	(270)	(0.9)%	(95)	35.2%
Total	**30,158**	**100%**	**31,013**	**100%**	**(855)**	**(2.8)%**

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

In 2008, in particular, revenues for the **Domestic Business Unit** were impacted by:

- the positive change in Revenues from innovative businesses such as Fixed-line BroadBand Revenues (an increase of 186 million in 2008 compared to 2007), Interactive VAS Revenues from the Mobile business (an increase of 263 million in 2008 compared to 2007) and Revenues from ICT services (an increase of 115 million in 2008 compared to 2007);

- the positive change in National Wholesale Revenues, despite a significant reduction in regulated prices, owing to the portion of access services by alternative operators to the Telecom Italia network (Unbundling of the Local Loop, Wholesale Line Rental, Bitstream, etc.) which grew compared to the prior year by 113 million. This change also made it possible to partly offset the negative trend of revenues from retail voice services;

- the gradual reduction in certain negative effects caused by regulatory and contractual changes, such as the application of the Bersani Decree . These were related to top-up costs for mobile phones, the reduction in termination rates, the reduction in international roaming traffic rates within the EU and the above-mentioned change in prices relating to regulated bitstream wholesale services, unbundling and shared access, which during the year reduced revenues by approximately 830 million. This change, observed during the course of the year on a quarterly basis, reflected an impact of - 418 million in the first quarter which decreased to - 81 million in the fourth quarter.

The growth in revenues in the **Brazil Business Unit** from 4,990 million in 2007 to 5,208 million in 2008 was attributable to value-added services, growing by more than 30% (an increase of 105 million) compared to the prior year. This was evident in the increase of the TIM Web client base (BroadBand connectivity plans using mobile technology) which reached 425,000 at the end of the period, up 174% compared to year-end 2007.

v **OTHER INCOME**

Other income is detailed as follows:

	Year ended December 31,		
	2008	**2007**	**Changes**
		(millions of Euro)	
Late payment fees charged for telephone services	86	90	(4)
Recovery of costs, personnel and services rendered	59	58	1
Capital and operating grants	44	34	10
Damage compensation, penalties and sundry recoveries	68	44	24
Sundry income	99	180	(81)
Total	**356**	**406**	**(50)**

Sundry income referred to prior period income and expenses.

v **OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)**

EBITDA amounted to 11,367 million in 2008, a decrease of 2.6%, or 301 million compared to 2007. The decrease was mainly due to the negative impact on revenues attributable to the aforementioned regulatory and contractual changes.

As a percentage of revenues, EBITDA was 37.7% in 2008 (37.6% in 2007).

86

The table below sets forth, for the periods indicated, EBITDA and the percentage of EBITDA to revenues by Business Unit:

	Year ended December 31,					
	2008		2007		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
Domestic	9,998	88.0%	10,174	87.2%	(176)	(1.7)%
• *% of Revenues*	*43.0%*		*42.0%*		*1.0*	
Brazil	1,217	10.7%	1,207	10.3%	10	0.8%
• *% of Revenues*	*23.4%*		*24.2%*		*0.8*	
European BroadBand	245	2.2%	297	2.5%	(52)	(17.5)%
• *% of Revenues*	*19.2%*		*25.8%*		*(6.6)*	
Media, Olivetti and Other Operations	(78)	(0.7)%	(5)		(73)	
Adjustments and eliminations	*(15)*	*(0.2)%*	*(5)*		*(10)*	
Total	**11,367**	**100%**	**11,668**	**100%**	**(301)**	**(2.6)%**

In 2008, on the cost side EBITDA was impacted by the following:

- **Acquisition of goods and services** amounted to 13,876 million, a decrease of 379 million, or 2.7%, compared to 2007 (14,255 million). The reduction in costs for the portion of revenues to be paid to other operators and for commercial expenses of the Domestic Business Unit were partly offset by an increase in the interconnection costs of the European BroadBand and Brazil Business Units.

In detail:

	Year ended December 31,		
	2008	2007	Changes
	(millions of Euro)		
Purchase of raw materials and merchandise	2,720	2,635	85
Portion of revenues due to other TLC operators and interconnection costs	5,450	5,850	(400)
Commercial and advertising costs	2,067	2,210	(143)
Power, maintenance and outsourced services	1,335	1,220	115
Rent and leases	606	595	11
Other service expenses	1,698	1,745	(47)
Total	**13,876**	**14,255**	**(379)**

The percentage of acquisition of goods and services to revenues was 46.0% in 2008, unchanged compared to 2007.

Table of Contents

Item 5. Operating And Financial Review And Prospects **Results Of Operations For The Three Years Ended December 31, 2008**

- **Employee benefits expenses**

Details are as follows:

	Year ended December 31, 2008	2007	Changes
	(millions of Euro)		
Employee benefits expenses Italian companies:			
• Ordinary employee costs and benefits	3,474	3,544	(70)
• Expenses for early retirements agreements under Law 223/91	292		292
• Inclusion of Shared Service Center in scope of consolidation	44	11	33
• Profit bonuses accrued in 2006 and no longer due following agreements with the unions in June 2007		(79)	79
• Actuarial recalculation of the provision for employee severance indemnity (according to the law on supplementary pension benefits)		(59)	59
Total employee benefits expenses Italian companies	**3,810**	**3,417**	**393**
Employee benefits expenses foreign companies:			
• Ordinary employee costs and benefits	406	390	16
• Entel Bolivia Group(*)	4	15	(11)
Total employee benefits expenses foreign companies	**410**	**405**	**5**
Total employee benefits expenses	**4,220**	**3,822**	**398**

–

(*) Excluded from the scope of consolidation in the second quarter of 2008.

The decrease of 70 million in the Italian component of ordinary employee benefit expenses was mainly due to lower expenses for termination benefit incentives (- 87 million) and lower costs arising from the reduction in the average number of the salaried workforce (-1,746 compared to 2007, excluding 460 employees as a result of the inclusion of Shared Service Center in the scope of consolidation). The reduction was offset by the continuing effect of the increase in the minimum labor contract terms of October 2007 and June 2008 established by the July 31, 2007 TLC collective national labor contract, for the two economic years 2007 and 2008.

The expenses for early retirement agreements under Law 223/91 included 287 million for the Domestic Business Unit (283 million for Telecom Italia S.p.A. and 4 million for Telecom Italia Sparkle) and 5 million for the Olivetti Business Unit. The agreements with the labor unions were signed on September 19, 2008 for Telecom Italia S.p.A., October 28, 2008 for Telecom Italia Sparkle and December 11, 2008 for Olivetti S.p.A. and Olivetti I-Jet.

With respect to the foreign companies, ordinary employee benefits expenses were affected by an increase in the number of the workforce at the Brazil Business Unit and at BBNed (European BroadBand).

The Group s average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31,		
	2008	2007	Changes
	(equivalent number)		
Average salaried workforce Italy(1)	63,145	64,431	(1,286)
Average salaried workforce Foreign(2)	12,883	13,847	(964)
Total average salaried workforce	**76,028**	**78,278**	**(2,250)**
Non-current assets held for sale Foreign	757	1,350	(593)
Total average salaried workforce including Non-current assets held for sale	**76,785**	**79,628**	**(2,843)**

–

(1) The change from 2007 includes the addition of Shared Service Center s average headcount of 460 employees.

(2) The change from 2007 includes the deduction of Entel Bolivia group s average headcount of 1,381 employees.

Group s employees at December 31, 2008 and 2007 were as follows:

	Year ended December 31,		
	2008	2007 (units)	Changes
Employees Italy	64,242	66,951	(2,709)
Employees Foreign	13,583	15,118	(1,535)
Total Employees excluding Non-current assets held for sale(1)	**77,825**	**82,069**	**(4,244)**
Non-current assets held for sale		1,360	(1,360)
Total Employees including Non-current assets held for sale	**77,825**	**83,429**	**(5,604)**

–

(1) Includes employees with temp work contracts: 1,075 at December 31, 2008 and 1,969 at December 31, 2007.

The Group employee levels fell by 4,244 from year-end 2007 mainly due to a 2,674 employee decrease at Telecom Italia S.p.A., corresponding to more than 50% of the target in the efficiency plan presented by the Executive Committee on June 4, 2008.

- **Other operating expenses**

Details are as follows:

	Year ended December 31,		
	2008	2007 (millions of Euro)	Changes
Impairments for bad debts and expenses connected with non-financial receivables management	744	951	(207)
Provision charges	82	323	(241)
Telecommunications operating fees and charges	315	283	32
Taxes on revenues of Brazilian companies	282	266	16
Indirect duties and taxes	139	155	(16)
Penalties, compensation and administrative sanctions	63	60	3
Association dues and fees, donations, scholarships and traineeships	26	25	1
Sundry expenses	45	168	(123)
Total	**1,696**	**2,231**	**(535)**

In 2008, impairments for bad debts and expenses connected with non-financial receivables management included 402 million attributable to the Domestic Business Unit (652 million in 2007), 280 million to the Brazil Business Unit (268 million in 2007) and 59 million to the European BroadBand Business Unit (25 million in 2007). Charges for accruals made in 2008 in connection with receivables management took into account both the assessment of credit risks on consumer and business customers arising from the recent change in the macroeconomic scenario and the steps taken to recover receivables. Impairments for bad debts and expenses connected with non-financial receivables management were higher in 2007 despite the worsening economic climate in 2008 due to certain one-off charges and regulatory developments.

In 2008, provision charges, recognized mainly for pending disputes, included 39 million referring to the Domestic Business Unit (287 million in 2007, recorded in respect of negative developments in disputes of a regulatory nature with other fixed-line and mobile telephone operators) and 36 million to the Brazil Business Unit (18 million in 2007).

Sundry expenses referred to prior period income and expenses.

v **DEPRECIATION AND AMORTIZATION, GAINS (LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS**

- **Depreciation and amortization,** amounted to 5,906 million (5,674 million in 2007), an increase of 232 million, of which 148 million related to the amortization of intangible assets and 84 million to the depreciation of tangible assets.

The increase in amortization reflects the development of European BroadBand and the amortization charge related to capitalized Subscriber Acquisition Costs (**SAC**) for sales plans. The increase in depreciation is mainly due, in the Domestic Business Unit, to the shift in the capital expenditure mix to assets with a shorter life and also the full effect in 2008 of the depreciation charge on tangible assets capitalized in 2007.

- **Gains on disposals of non-current assets,** amounted to 35 million (5 million in 2007) and included 9 million on the disposal of the Pay-per-View business segment by Telecom Italia Media in addition to other net gains mainly on the sale of properties.

- **Impairment losses on non-current assets,** amounted to 33 million in 2008 (44 million in 2007), largely due to the writedown of 21 million on the goodwill originally recognized on the acquisition of the AOL group companies in Germany. The writedown was effected after tax benefits were recorded in 2008 that had not been accounted for at the date of acquisition, since the assumptions for their recognition were believed not to exist at that time.

The impairment test for the cash-generating units of the Telecom Italia Group indicated that the recoverable amounts exceeded the carrying amounts, therefore no impairment losses were recognized on goodwill.

v OPERATING PROFIT

Operating profit was 5,463 million in 2008, a reduction of 492 million compared to 2007 (-8.3%). As a percentage of revenues, operating profit was 18.1% in 2008 (19.2% in 2007).

v SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Details are as follows:

	Year ended December 31,		
	2008	2007	Changes
	(millions of Euro)		
ETECSA.	53	49	4
Sofora Telecomunicaciones S.A.	24	25	(1)
Tiglio I and Tiglio II	(7)	11	(18)
Other investments	(6)	1	(7)
Total	**64**	**86**	**(22)**

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.6 Other Telecom Italia Group Operations , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **OTHER INCOME (EXPENSES) FROM INVESTMENTS**

Details are as follows:

	Year ended December 31, 2008	2007	Changes
	(millions of Euro)		
Dividends from Other investments.	3	7	(4)
Net gains on disposals of Other investments	2	462	(460)
Writedown of Other investments	(1)	(2)	1
Total	**4**	**467**	**(463)**

In 2007, the net gains on disposals of Other investments included, in particular, the gain on the disposal of the entire stakes held in Oger Telecom (86 million), Capitalia (38 million), Mediobanca (109 million), Solpart Participações (201 million) and Brasil Telecom Participações (27 million).

Table of Contents

v **FINANCE INCOME (EXPENSES)**

Details are as follows:

	Year ended December 31, 2008	2007	Changes
	(millions of Euro)		
Fair value measurement of call options for 50% of Sofora Telecomunicaciones share capital.	(190)	70	(260)
Income on bond buybacks	62		62
Early termination of cash flow hedge derivatives	19	55	(36)
Writedown taken on Lehman Brothers	(58)		(58)
Net finance expenses, fair value adjustments of derivatives and other items	(2,467)	(2,309)	(158)
Total	**(2,634)**	**(2,184)**	**(450)**

With regard to the writedown of receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., it should be noted that when Lehman Brothers Holding Inc. announced that it had begun bankruptcy proceedings, the Telecom Italia Group had derivative transactions hedging financial risks on existing financial payables with Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc. that were guaranteed by Lehman Brothers Holding Inc..

After the announcement, the Telecom Italia Group initiated legal action aimed at the early termination of those transactions and to recover the receivable. As a consequence of that action, since the Telecom Italia Group had a receivable with Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., it wrote down that receivable to estimated realizable value in a total amount of 58 million.

The increase of 158 million in net finance expenses, fair value adjustments of derivatives and other items includes 70 million due to the effect of higher interest rates and the change in debt exposure, 36 million for fair value adjustments of derivatives qualifying and not qualifying for hedge accounting, expenses generated by discounting to present value the debt on the purchase of the 3G mobile telephone licenses by the Brazil Business Unit (32 million) and other minor items.

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **INCOME TAX EXPENSE**

Income tax expense amounted to 653 million and decreased by 1,030 million compared to 2007. The reduction was mainly due to the following:

- lower tax rates applied in calculating the current income tax in Italy: the IRES tax rate was reduced from 33% to 27.5% and the IRAP tax rate from 4.25% to 3.90% compared to 2007, with a total benefit to the Parent, Telecom Italia, of 137 million;

- deferred tax assets recorded by some Group companies which became recoverable starting in 2008 (approximately 90 million). The year 2007 had benefited from the net recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of subsidiaries residing in the European Union, for 96 million;

- a net benefit of 515 million resulting from the difference between 1,048 million, arising mainly from the release to the income statement of deferred tax liabilities, and 533 million of substitute tax. For further details please see Note-Income tax expense , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;

- lower taxable income.

Table of Contents

v PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

The loss from Discontinued operations/Non-current assets held for sale was 29 million (a loss of 186 million in 2007) and mainly includes the following:

- the negative contribution of Liberty Surf group up to the date of its disposal for - 188 million (- 222 million for the full-year 2007);
- the gain of 160 million, net of transaction costs, for the August 26, 2008 sale of the entire investment held in Liberty Surf Group S.A.S. (the holding company for BroadBand activities in France).

In 2007, the loss of 222 million related to the Liberty Surf group was partially offset in the amount of 36 million by the release of a provision net of additional accruals to the provision and expenses connected with sales transactions which took place in prior years.

5.3.6 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2008 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2007

v DOMESTIC

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31,			
	2008 (a)	2007 (b)	Changes (a-b)	%
	(millions of Euro, except percentages)			
Revenues	23,268	24,220	(952)	(3.9)%
EBITDA	9,998	10,174	(176)	(1.7)%
• *% of Revenues*	*43.0%*	*42.0%*		
Operating profit	5,444	5,751	(307)	(5.3)%
• *% of Revenues*	*23.4%*	*23.7%*		
Capital expenditures	3,658	4,064	(406)	(10.0)%
Employees at year-end (units)	61,816	64,362	(2,546)	(4.0)%

Revenues decreased by 952 million, or 3.9%, from 24,220 million in 2007 to 23,268 million in 2008.

The following table sets forth, for the periods indicated, the various components of the Business Unit s revenues.

	Year ended December 31,			
	2008	2007	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Fixed Telecommunications	15,000	15,727	(727)	(4.6)%
Mobile Telecommunications	9,729	9,922	(193)	(1.9)%
Eliminations and central functions contribution	(1,461)	(1,429)	(32)	
Revenues	23,268	24,220	(952)	(3.9)%

An analysis of the main components of the Business Unit s revenues is as follows:

- **Revenues from Fixed Telecommunications** in 2008 amounted to 15,000 million a decrease of 727 million compared to 2007 (-4.6%). Despite the overall decrease there was an improving trend during 2008 which was evident in the fourth quarter of 2008 where revenues decreased only 2.3% compared to the corresponding quarter of 2007. This was mainly due to the decreasing impact of regulatory and legal changes which affected revenues in the later half of 2007 and in 2008. The following chart shows the trend of revenues in the major business areas.

The performance of the major business areas was as follows:

Retail voice

	Year ended December 31,					
	2008		2007		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
Traffic	3,118	41.4%	3,524	42.2%	(406)	(11.5)%
Access	3,668	48.7%	3,938	47.1%	(270)	(6.9)%
VAS	257	3.4%	357	4.3%	(100)	(28.0)%
Telephony Products	486	6.5%	539	6.4%	(53)	(9.8)%
Total Retail voice	**7,529**	**100.0%**	**8,358**	**100.0%**	**(829)**	**(9.9)%**

Retail voice revenues showed a normal contraction in the customer base and traffic volumes due to the competitive environment in which the company operates. In 2008, the number of Telecom Italia physical access lines fell by approximately 1.9 million compared to year-end 2007 (-10%). This was partly prompted by the availability, starting from 2008, of new access solutions to the Telecom Italia network (Wholesale Line Rental) typically targeting customers who had previously migrated their telephone traffic to alternative operators using non-infrastructure solutions such as carrier selection and pre-selection. The impact in terms of lower access revenues (- 270 million), for the domestic business, was partly compensated by the growth of national wholesale services.

The national market, following the international trend, continues its migration from fixed-mobile to mobile-mobile solutions. This, in fact, accounts for more than 50% of the total contraction in traffic revenues (- 406 million).

In addition to the market changes above, retail voice revenues were also affected during the year by the following:

- the effect of the reduction in regulated fixed-mobile termination rates (approximately 100 million entirely offset by lower interconnection costs with mobile operators);
- the discontinuance of some obligatory and voluntary Premium services which had a sharp impact on VAS revenues (a decrease of 100 million compared to 2007).

Internet

	Year ended December 31,		
	2008	2007	Changes

	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
NarrowBand	60	3.7%	84	5.7%	(24)	(28.6)%
BroadBand	1,570	96.3%	1,384	94.3%	186	13.4%
of which content/portal	*120*		*78*		*42*	*53.8%*
Total Internet	**1,630**	**100.0%**	**1,468**	**100.0%**	**162**	**11.0%**

The total domestic retail BroadBand access portfolio grew by 327,000 from year-end 2007 to 6.8 million at year-end 2008. Within the scope of this expansion of the customer base and consistent with the value strategy followed by the Company for the entire year, Flat-rate packages now account for 77% of the total retail BroadBand customer portfolio, up 677,000 from year-end 2007. The VoIP customer portfolio reached approximately 2 million accesses and stands at 30% of total retail BroadBand accesses. IPTV expansion continues on the Consumer market (the portfolio is now at 329,000 customers, +249,000 compared to year-end 2007), while offers and web activities are being developed through the Virgilio/Alice portal.

The above sales actions led to a growth in BroadBand revenues of 13.4% (an increase of 186 million).

Table of Contents

Data Business

	Year ended December 31,					
	2008		2007		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
Leased lines	198	11.5%	239	14.3%	(41)	(17.2)%
Traditional TD	71	4.1%	71	4.2%		
Innovative TD	480	27.9%	510	30.5%	(30)	(5.9)%
Data Products	211	12.3%	208	12.4%	3	1.4%
ICT Services	760	44.2%	645	38.6%	115	17.9%
Total Data Business	**1,720**	**100.0%**	**1,673**	**100.0%**	**47**	**2.8%**

Revenues for the Data Business rose by 47 million (+2.8%) from 2007. This increase reflected the company s ability to counter the contraction in data transmission and connectivity services supplied to companies with the development of revenues from ICT services which increased by 115 million (17.9%, of which 22% growth is from services, accounting for 59% of revenues mix) due to specific turn-key offers for the Corporate and SME segment.

Wholesale

	Year ended December 31,					
	2008		2007		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
National Wholesale	2,448	64.9%	2,374	62.7%	74	3.1%
International Wholesale	1,323	35.1%	1,412	37.3%	(89)	(6.3)%
Total Wholesale	**3,771**	**100.0%**	**3,786**	**100.0%**	**(15)**	**(0.4)%**

Despite the effect of lower traffic (- 39 million), revenues from national Wholesale, on the whole, rose by 74 million (+3.1%) over the prior year.

The customer portfolio of Telecom Italia s Wholesale division reached approximately 5 million accesses for telephone services and 1.3 million for BroadBand services at year-end 2008. Such dynamics generated a positive impact on the national wholesale business which recorded, compared to the correlated revenues from access services to the Telecom Italia network, an increase of 113 million, taking into account the impact of the reduction in regulated prices of approximately 85 million as described above.

In international Wholesale services where the Telecom Italia Group operates through Telecom Italia Sparkle and its subsidiaries, revenues fell by 89 million (-6.3%) compared to 2007. The reduction is entirely due to lower transit revenues generated by the termination of some contracts beginning in the second quarter of 2007 (producing a total impact of 166 million). Excluding this element, revenues continue to expand and confirm the positive trend of past years.

- **Revenues from Mobile Telecommunications** for 2008 amounted to 9,729 million, a decrease of 193 million compared to 2007.

In particular:

Outgoing voice revenues were 4,965 million in 2008, a reduction of 276 million (-5.3%) from 2007, mainly due to the continuing impact of certain regulations, including in particular the Bersani Decree . In the fourth quarter, a consumer customer rate repricing policy brought the quarter s performance in line with the same quarter of the prior year (1,248 million, an increase of 1 million compared to 2007).

Incoming voice revenues were 1,356 million in 2008, a decline of 158 million (-10.4%) compared to 2007 due to the reduction in mobile termination prices (-12% compared to 2007).

Table of Contents

Value-added Services revenues amounted to 2,173 million in 2008 and grew by 12.7% compared to 2007. Such growth was boosted by the steady increase in BroadBand customers (*web BroadBand active users*) which rose by 1.4 million to 2.6 million users at year-end 2008.

This led to an increase in interactive VAS service revenues of more than 30% (+ 263 million) which entirely accounts for the above revenue growth over the prior year. Traditional VAS revenues (*messaging*) are basically in line with the prior year.

The growing contribution of these services was evidenced by the percentage of VAS revenues to all service revenues which for 2008 were approximately 25% (22% in 2007).

Handset sale revenues were 860 million in 2008, an increase of 86 million compared to 2007. Although the overall quantity of handsets sold decreased, the growth in revenues was achieved by improving the product mix with handsets in the high-end range (3G, Netbooks and Internet Keys which accounted for more than 60% of handset volume sales in 2008) leading to higher average prices (+24%). This policy was a key factor in contributing to raising innovative VAS penetration.

EBITDA amounted to 9,998 million and was 176 million lower than in 2007. The EBITDA margin was 43.0% (up 1.0 percentage points against the prior year).

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

- *acquisition of goods and services* totaled 9,644 million, a reduction of 571 million (-5.6%) compared to 2007. The change is mainly due to a decrease in the amount to be paid to other operators following the reduction in the termination rates of voice calls on the networks of other operators from fixed-line and mobile networks and a decrease in International Wholesale transits due to the termination of some contracts beginning in the second quarter of 2007. It should be noted that interconnection costs in 2007 were also affected by the resolution of disputes of a regulatory nature with other operators;

- *employee benefits expenses* are detailed as follows:

	Year ended December 31,		
	2008	2007	Changes
	(millions of Euro)		
Employee benefits expenses at payroll:			
• Ordinary employee benefits	3,351	3,412	(61)
• Telecom Italia S.p.A. starting costs for early retirement agreements under Law 223/1991	287		287
• Profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007		(79)	79
• Actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits		(51)	51

Total employee benefits expenses	**3,638**	**3,282**	**356**

Excluding, in 2008, the expenses connected with early retirement agreements under Law 223/1991 and, in the prior year, the benefits associated with the profit bonus and the actuarial recalculation of employee severance indemnity, employee benefits expenses decreased by 61 million. The reduction is due to the reduction in the average headcount which is partly offset by higher costs connected with contractual minimum salary increases;

- *other operating expenses* amounted to 725 million (1,338 million in 2007). The change is mainly due to lower writedowns and expenses connected with receivables management (- 251 million) and lower charges for accruals to provisions (- 248 million) associated with the costs for disputes of a regulatory nature with other operators which arose in the last few months of 2007.

The accruals for receivables management set aside in 2008 take into account the assessment of credit risks with consumer and business customers arising from recent changes in the macroeconomic environment and also measures to recover receivables put into place in the fixed-line area.

In 2007, accruals were higher despite the worsening economic conditions in 2008 due to provisions stemming from unfavorable developments relating to disputes of a regulatory nature with other fixed-line and mobile telephony operators and also accruals in connection with the management of overdue receivables from mobile customers with postpaid contracts and non-performing receivables from fixed-line customers with whom contractual relations had been terminated; higher expenses were also recorded for the management of receivables following settlement agreements with other operators.

Operating profit decreased by 307 million in 2008, or 5.3%, from 5,751 million in 2007 to 5,444 million in 2008, with the percentage of operating profit to revenues at 23.4% (23.7% in 2007). Operating profit performance was hurt, apart from the factors commented under EBITDA, by higher depreciation and amortization charges (+ 171 million), of which 81 million refers to the amortization of intangible assets and 90 million to the depreciation of tangible assets. That negative effect was partly offset by the increase in the net balance of gains (losses) on disposals of non-current assets (+ 15 million).

* * *

Capital expenditures were 3,658 million in 2008 compared to 4,064 million in 2007, a decrease of 406 million, or 10.0%. The percentage of capital expenditures to revenues is equal to 15.7% (16.8% in 2007). In particular:

- **Capital expenditures for fixed-line telecommunications** were 2,500 million (a decrease of 220 million compared to 2007) and were principally earmarked for BroadBand development and new services (overall approximately 41% of total fixed-line investments) and the upgrading of the network and information systems (approximately 40%). The remaining capital expenditures were directed to the consolidation of traditional services and meeting regulatory provisions and the law.

As for BroadBand development and new services, the most important commitment continues to be ADSL Alice, with access speeds up to 20 Mbps, linked also to the IPTV service offering.

Capital expenditures also include work to develop the new access platform in fiber optics (Next Generation Network 2 or NGN2) to provide very high speed services. Telecom Italia s network is already able to serve a potential pool of approximately 7 million customers with IPTV services.

Other capital expenditures were allocated to telephone and data networks and operating and support systems for commercial activities. These include the Next Data Center Generation project geared to optimizing the Data Center server structure and support Information Technology packages aimed at companies.

- **Capital expenditures for mobile telecommunications** amounted to 989 million (a decrease of 150 million compared to 2007). Approximately 32% was for handset packages, using contracts that are usually for two years, aimed at increasing customer loyalty. Along with traditional cell phones and the more sophisticated palm handheld devices, more plans are increasingly being offered with devices boosting the use of the Internet via the mobile network (from simple USB port keys to portable computers).

The development of the UMTS and HSDPA third-generation network (approximately 20% of mobile capital expenditures including the core network) is aimed at increasing coverage for high-speed Internet (up to 7 Mbps) and transmission of multimedia content.

Actions taken to extend the range of services offered to customers are also important (MTV mobile plans addressed to the youth market, Family solutions, Home Zone and Milleuna TIM etc.) and entailed capital expenditures equal to approximately 14% of total mobile investments.

The remaining amount of capital expenditures is being allocated to the network platform (approximately 11%) primarily to upgrade software in exchange centers, the development of information systems (approximately 17%) to support the acquisition, caring and after-sales phases and the traditional GSM services platform (approximately 6%).

Employees were 61,816, with a reduction of 2,546 compared to December 31, 2007, and included 638 people with temp work contracts (1,278 at December 31, 2007).

Table of Contents

v **BRAZIL**

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

	Year ended December 31,					
	2008	2007	2008 (a)	2007 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)		(millions of BRL, except percentages and employees)			
Revenues	5,208	4,990	13,951	13,293	658	4.9%
EBITDA	1,217	1,207	3,259	3,214	45	1.4%
• *% of Revenues*	*23.4*	*24.2*	*23.4*	*24.2*		
Operating profit	189	150	507	399	108	27.1%
• *% of Revenues*	*3.6*	*3.0*	*3.6*	*3.0*		
Capital expenditures	1,348	865	3,612	2,305	1,307	56.7%
Employees at year-end (units)	10,285	10,030	10,285	10,030	255	2.5%

Revenues increased by BRL 658 million, or 4.9%, from BRL 13,293 million in 2007 to BRL 13,951 million in 2008, recording an increase in revenues from services of 6.1%, within which VAS revenues rose by 31% compared to 2007. The growth of the customer base, together with steady competitive pressure that featured promotions, especially Internet traffic packages, gradually diluted average monthly revenues per user, which remains the highest in the Brazilian market.

EBITDA increased by BRL 45 million in 2008, or 1.4%, from BRL 3,214 million in 2007 to BRL 3,259 million in 2008. The EBITDA margin was 23.4%, 0.8 percentage points lower than in 2007.

This result was achieved by a strict cost control policy as competition in the Brazilian market eroded prices and per unit service margins.

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

- *acquisition of goods and services,* totaling BRL 8,107 million, increased by 8.3% compared to 2007 (BRL 7,487 million), mainly as a result of higher interconnection costs, due to the rise in traffic generated, and other selling costs;
- *employee benefit expenses,* amounting to BRL 626 million, rose by BRL 31 million (+5.2%) from 2007 owing to an increase in the headcount where the average number went from 8,847 in 2007 to 9,240 in 2008. The percentage of employee benefit expenses to revenues is 4.5% in 2008, the same as of last year;

- *other operating expenses* were BRL 2,381 million (BRL 2,185 million in 2007) and included taxes on revenues, indirect taxes and telecommunications operating fees (BRL 1,496 million in 2008 compared to BRL 1,387 million in 2007), writedowns and losses on receivables (BRL 749 million in 2008 compared to BRL 715 million in the prior year), mainly regarding the Televendita sales channel, and other charges for accruals and sundry items (BRL 136 million in 2008 compared to BRL 83 million in 2007).

Operating profit increased by BRL 108 million in 2008, or 27.1%, from BRL 399 million in 2007 to BRL 507 million in 2008, with the percentage of operating profit to revenues at 3.6% (3.0% in 2007). This result was due to a higher EBITDA and lower depreciation charges since the TDMA network is now completely depreciated.

* * *

Capital expenditures were BRL 3,612 million in 2008 compared to BRL 2,305 million in 2007, an increase of BRL 1,307 million, or 56.7%. This increase was due to the purchase of the 3G licenses (BRL 1,239 million), the growth of the customer base and investments in network infrastructures and third-generation IT.

On April 29, 2008, the contracts relating to the licenses for 3G services were signed. At that time, Tim Brasil paid 10% of the total value of the licenses acquired and paid the remaining 90% in December 2008.

The allotted licenses cost was BRL 1,325 million; their present value was BRL 1,239 million and the difference of BRL 86 million was recorded in finance expenses.

Employees at December 31, 2008 were 10,285, up 2.5% compared to December 31, 2007 (10,030).

v **EUROPEAN BROADBAND**

Starting from January 1, 2008, the Liberty Surf group was treated as Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. Data relating to 2007 for comparison purposes has been restated.

The following table sets forth, for the periods indicated, certain financial and other data for the BroadBand Business Unit.

	Year ended December 31,			
	2008	2007	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	1,274	1,151	123	10.7%
EBITDA	245	297	(52)	(17.5)%
• *% of Revenues*	*19.2*	*25.8*		
Operating profit (loss)	(30)	122	(152)	
• *% of Revenues*	*(2.4)*	*10.6*		
Capital expenditures	352	358	(6)	(1.7)%
Employees at year-end (units)	2,912	3,191	(279)	(8.7)%

GERMANY (HanseNet + TI Deutschland)

	Year ended December 31,			
	2008	2007	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Revenues	1,190	1,074	116	10.8%
EBITDA	238	281	(43)	(15.3)%
• *% of Revenues*	*20.0*	*26.2*		
Operating profit (loss)	(13)	126	(139)	
• *% of Revenues*	*(1.1)*	*11.7*		
Capital expenditures	327	344	(17)	(4.9)%

THE NETHERLANDS (BBNed)

	Year ended December 31,			
	2008	2007	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Revenues	84	77	7	9.1%
EBITDA	7	16	(9)	(56.3)%
• *% of Revenues*	*8.3*	*20.8*		

Operating profit (loss)	(17)	(4)	(13)	
• *% of Revenues*	*(20.2)*	*(5.2)*		
Capital expenditures	25	14	11	78.6%

Revenues amounted to 1,274 million, an increase of 123 million (+10.7%) compared to 2007. The BroadBand customer portfolio at December 31, 2008 exceeded 2.5 million accesses, comparable to 2007. The Narrowband portfolio, at December 31, 2008, was 0.5 million accesses compared to 0.7 million at December 31, 2007.

Revenues from business operations conducted in **Germany** were 1,190 million, an increase of 10.8% compared to 2007 (+ 116 million). The BroadBand customer portfolio in Germany was 2.3 million at December 31, 2008, a number that is stable compared to December 31, 2007.

The Netherlands contributed 84 million to revenues, 7 million higher than in 2007 (+9.1%). The customer portfolio of approximately 166,000 was approximately 22,000 lower than on December 31, 2007 owing to the loss of lines in ADSL Wholesale (-38,000), Fiber and Voice Wholesale (-24,000), which was partly offset by the growth of ADSL connections in the Retail area (+40,000).

EBITDA was 245 million, a decrease of 52 million (-17.5%) compared to 2007. The EBITDA margin was 19.2% against 25.8% in the prior year.

Changes in costs are due to the following:

- *acquisition of goods and services,* totaling 886 million, increased by 19.4% compared to 2007 (+ 144 million) mainly as a consequence of the growth of the business (particularly interconnection costs with other operators and those associated with the acquisition of new customers) and in part due to the change in the scope of consolidation due to the acquisition of the AOL companies in Germany in March 2007;
- *employee benefits expenses* amounted to 130 million and increased by 4 million compared to 2007 (+3.2%);
- *other operating expenses* of 59 million rose by 31 million compared to 2007 mainly as a result of higher accruals to the provision for bad debts owing to the need for higher coverage of Hansenet overdue receivables.

Operating profit (loss) was a loss of 30 million in 2008; in 2007 it was a profit of 122 million.

In addition to the decline in EBITDA, the reduction in operating profit was due to the considerable increase in depreciation and amortization charges (+ 79 million) attributable to the significant investments in network infrastructure and information support systems made between the end of 2007 and the beginning of 2008 and also to costs incurred to acquire customers for rate plans that bind the customer to a two-year contract.

* * *

Capital expenditures amounted to 352 million, down by 6 million compared to 2007.

Employees were 2,912 at December 31, 2008, with a reduction of 279 compared to December 31, 2007, and includes 354 people with temp work contracts (609 at December 31, 2007).

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,			
	2008 (a)	2007 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	287	263	24	9.1%
EBITDA	(59)	(55)	(4)	(7.3)%
• *% of Revenues*	*(20.6)*	*(20.9)*		
Operating profit (loss)	(113)	(117)	4	3.4%
• *% of Revenues*	*(39.4)*	*(44.5)*		
Capital expenditures	50	69	(19)	(27.5)%
Employees at year-end (units)	967	1,016	(49)	(4.8)%

On December 1, 2008, Telecom Italia Media S.p.A. sold the Pay-per-View business segment realizing a consolidated gain, net of transaction costs, of 9 million, with a proceed of 16 million.

Table of Contents

The table below sets out the main operating data of the segment sold for the periods indicated.

	Year ended December 31,			
	1.1 11.30 2008 (a)	2007 (b)	Changes (a-b)	%
	(millions of Euro, except percentages)			
Revenues	71	57	14	24.6%
EBITDA	(16)	(12)	(4)	(33.3)%
• *% of Revenues*	*(22.5)*	*(21.1)*		
Operating profit (loss)	(18)	(13)	(5)	(38.5)%
• *% of Revenues*	*(25.4)*	*(22.8)*		

Restated data for 2008 and 2007 are reported below and excludes the results of the segment sold.

	Year ended December 31,			
	2008 restated (a)	2007 restated (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	224	215	9	4.2%
EBITDA	(43)	(44)	1	2.3%
• *% of Revenues*	*(19.2)*	*(20.5)*		
Operating profit (loss)	(104)	(104)		
• *% of Revenues*	*(46.4)*	*(48.4)*		
Capital expenditures	49	67	(18)	(26.9)%
Employees at year-end (units)	967	992	(25)	(2.5)%

Revenues were 224 million, an increase of 4.2% compared to 215 million in 2007. The increase in revenues was attributable to:

- **revenues from the Free to Air analog business area** of 154 million, down 6 million (-3.9%) compared to 2007. Lower revenues from advertising sales (- 13 million, of which - 5 million related to La7 and - 8 million to MTV), were partly compensated by the increase in the production of content and events sold to third parties (+ 7 million);

- **revenues from Multimedia operations** were 44 million and grew by 40.3% (+ 13 million) compared to 2007 (31 million). This change was due to an increase in the contribution by the Content Competence Center operations for Telecom Italia (+ 5 million), the launch of MTV Mobile in 2008 (+ 7 million) and higher revenues from the broadcasting of five Satellite Channels on Sky (compared to three in 2007);

- **revenues from Digital Terrestrial operations** were 17 million, compared to 14 million in 2007 (+16.9%). Higher sales from the lease of digital band by the Network Operator contributed to this performance;

- **revenues from the New business area** were   10 million, up 1.0% over 2007.

EBITDA in 2008 was a negative   43 million, compared to a negative   44 million in 2007 and recorded a positive change of   1 million (+2.3%). In particular:

- EBITDA of **Free to Air analog business area** was a negative   40 million, up by   9 million compared to 2007 (- 31 million). La7 Free to Air operations contributed   4 million to that change. The previously described contraction in advertising revenues was more than offset (1 million) by decisive action taken to cut operating costs. However, expenses for organizational restructuring costs had an impact on EBITDA of   6 million, including the costs to reach a settlement on the dispute with La7 journalists which will have considerable positive repercussions in the next two years. The change in the contribution to EBITDA by MTV compared to 2007 (- 5 million) is almost entirely due to the decline in advertising sales, which was only partly compensated by a reduction in costs and includes   1 million of organizational restructuring expenses;

- besides the aforementioned increase in sales, **Digital Terrestrial operations** reported an improvement in EBITDA of 3 million compared to 2007, due to a reduction in costs attributable to a more efficient management of operations (1 million);

- the **Multimedia operations** improved its EBITDA by 7 million over the prior year, from 11 million in 2007 to 18 million in 2008;

- the **News business area** posted a negative EBITDA of 7 million in 2008 compared to a negative 6 million in 2007. The change of 1 million is entirely due to organizational restructuring expenses.

Operating profit (loss) was a loss of 104 million as in 2007. This result was due not only to the change in EBITDA of 1 million, as described above, but also to higher amortization charges of La7 and MTV Italy television rights (+ 4 million) offset by lower depreciation charges as a result of extending the useful life of Digital Terrestrial infrastructures (- 3 million) following amendments to the law in the second half of 2008: in fact, on August 4, 2008, an amendment to the law extended the useful life of digital frequencies from June 30, 2018 to December 31, 2028.

* * *

Capital expenditures were 49 million (67 million in 2007). They mainly refer to investments in the Television area and include the acquisition of infrastructures for the development of the Digital Terrestrial network (10 million) and the acquisition of television rights extending beyond one year (27 million). In 2007, capital expenditures included 17 million for the acquisition of frequencies in the Sicily region.

Employees at December 31, 2008 were 967, with a reduction of 25 compared to December 31, 2007 and includes 78 people with temp work contracts (70 at December 31, 2007).

v OLIVETTI

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	Year ended December 31, 2008 (a)	2007 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	352	408	(56)	13.7%
EBITDA	(30)	(44)	14	31.8%
• *% of Revenues*	*(8.5)*	*(10.8)*		
Operating profit (loss)	(37)	(66)	29	43.9%

• *% of Revenues*	*(10.5)*	*(16.2)*		
Capital expenditures	3	8	(5)	(62.5)%
Employees at year-end (units)	1,194	1,279	(85)	(6.6)%

Revenues were 352 million in 2008, a decrease of 56 million compared to 2007.

In 2008, there was a significant reduction in the sales of faxes using ink-jet technology and related accessories, as a direct consequence of the installation of fewer faxes. Following the decision to suspend the development and manufacture of multifunctional ink-jet products, sales decreased considerably, despite the supply contract with an important foreign customer which sustained sales in the first six months of 2008. Printers for banking teller applications, although hurt by a reduction in prices due to the weakness of the U.S. dollar against the euro, basically held firm in terms of volumes.

The improvement in the results reached in the Italian market is due to the supply of 11,000 counter printers to Poste Italiane S.p.A. and the growing importance of the volumes of fiscal cash registers.

Professional products for the office, copiers and related accessories decreased significantly compared to 2007 in the black and white copy segment, in quantity (-22%) and in average prices (-10% on the medium/high range models), which were only partly offset by higher volumes in the color laser copier segment (+10% in quantity).

During the last part of the year, an important project was begun in collaboration with Telecom Italia for the supply of terminals specialized for payments and services at tobacconist s shops in Italy.

EBITDA was a negative 30 million in 2008. This was an improvement of 14 million compared to 2007 (negative 44 million) due to a recovery on fixed costs which more than compensated for the deterioration in sales.

EBITDA was also affected by employee benefits expenses of 5 million in connection with expenses linked to the early retirement agreement under Law 223/91 signed with the labor unions on December 11, 2008, charges for accruals and expenses for termination benefit incentives owing to a reorganization of foreign commercial subsidiaries and charges for accruals for manager termination benefit incentives.

Operating loss was 37 million, an improvement of 29 million compared to 2007 (a loss of 66 million).

* * *

Capital expenditures amounted to 3 million, with a decrease of 5 million compared to 2007.

Employees were 1,194 (1,088 in Italy and 106 abroad) at December 31, 2008 compared to 1,279 (1,143 in Italy and 136 abroad) at December 31, 2007.

5.3.7 YEAR ENDED DECEMBER 31, 2007 COMPARED WITH YEAR ENDED DECEMBER 31, 2006

In 2007, **profit attributable to equity holders of the Parent** was 2,448 million (profit for the year including Minority Interest was 2,455 million), compared to consolidated profit attributable to equity holders of the Parent of 3,014 million (profit for the year including Minority Interest was 3,003 million) in 2006.

The following chart summarizes the main items which had an impact on the profit attributable to equity holders of the Parent in 2007:

102

v **REVENUES**

Revenues amounted to 31,013 million in 2007, a decrease of 24 million, or -0.1%, compared to 31,037 million in 2006.

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit and the percentage of their contributions to our consolidated revenues.

	Year ended December 31, 2007		2006		Changes	
	Gross Revenues(1) (a)	% of Consolidated revenues	Gross Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of Euro, except percentages)					
Domestic	24,220	78.1%	25,785	83.1%	(1,565)	(6.1)%
Brazil	4,990	16.1%	3,964	12.8%	1,026	25.9%
European BroadBand	1,151	3.7%	605	1.9%	546	90.2%
Media, Olivetti and Other Operations(2)	922	3.0%	881	2.8%	41	4.7%
Adjustments and eliminations	*(270)*	*(0.9)%*	*(198)*	*(0.6)%*	*(72)*	*(36.4)%*
Total	**31,013**	**100.0%**	**31,037**	**100.0%**	**(24)**	**(0.1)%**

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

In 2007, in particular, revenues for the **Domestic Business Unit** were adversely affected by the following regulatory changes:

- reduction in the termination rates which occurred in the second half of 2006;
- application of the Bersani Decree starting from March 2007;
- rate adjustments for international roaming traffic within the EU, in accordance with European Commission rulings;
- change, as a result of which, starting on January 1, 2007, pursuant to the Resolution 417/06/CONS by AGCom, relating to calls by customers to Non-Geographic Numbers (NGNs) of OLOs, Telecom Italia only provides invoicing services, no

longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs do not take into account the traffic generated by such calls, which in 2006 had been recognized as revenues with the recognition of the same amount of costs.

Overall, compared to 2006, as a result of these regulatory changes, revenues declined by 1,143 million.

In addition to the impact of the above:

- in fixed telecommunications, the increase in Internet revenues as a result of the continuing and strong growth of BroadBand and national Wholesale services did not compensate for the reduction in Retail voice revenues. Such decrease, especially on fixed-mobile and domestic traffic, was due to the stronger migration of market volumes from fixed to mobile traffic as well as the reduction in termination rates and high penetration of flat offers. Data Business revenues were also down due to stronger competition on the Corporate client market and the revision of contract prices with the Public Administration. A decline was also recorded in international Wholesale services due to the reduction in transit revenues generated by the termination of some contracts;

- in mobile telecommunications, there was a positive trend in value-added service revenues, particularly interactive services and mobile BroadBand, countered by the effects of the application of the new termination rates, the Bersani Decree and the adjustment of international roaming traffic rates.

Table of Contents

Item 5. Operating And Financial Review And Prospects **Results Of Operations For The Three Years Ended December 31, 2008**

The growth of the **Brazil Business Unit** was driven by the expansion of the customer base and the positive contribution of value-added services. In July 2006, regulatory changes occurred (abolition of the *Bill and Keep* rule) which also positively impacted 2007 revenues.

The **European BroadBand Business Unit** contributed to higher revenues in 2007 due to the positive growth of the customer portfolio in Germany.

v **OTHER INCOME**

Other income is detailed as follows:

	Year ended December 31, 2007	2006	Changes
	(millions of Euro)		
Late payment fees charged for telephone services	90	91	(1)
Recovery of costs, personnel and services rendered	58	62	(4)
Capital and operating grants	34	42	(8)
Damage compensation, penalties and sundry recoveries	44	51	(7)
Sundry income	180	344	(164)
Total	**406**	**590**	**(184)**

v **OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)**

EBITDA was 11,668 million, a decrease of 1,277 million, or 9.9%, compared to 12,945 million in 2006. As a percentage of revenues, EBITDA was 37.6% in 2007 (41.7% in 2006).

The table below sets forth, for the periods indicated, EBITDA and the percentage of EBITDA to revenues by Business Unit:

	Year ended December 31, 2007 (a)	%	2006 (b)	%	Changes (a-b)	%
	(millions of Euro, except percentages)					
Domestic	10,174	87.2%	11,893	91.9%	(1,719)	(14.5)%
% of revenues	*42.0%*		*46.1%*		*(4.1)*	
Brazil	1,207	10.3%	950	7.3%	257	27.1%
% of revenues	*24.2%*		*24.0%*		*0.2*	
European BroadBand	297	2.5%	176	1.3%	121	68.8%

% of revenues	*25.8%*		*29.1%*		*(3.3)*	
Media, Olivetti and Other Operations	(5)		(67)	(0.5)%	62	92.5%
Adjustments and eliminations	*(5)*		*(7)*		*2*	*28.6%*
Total	**11,668**	**100.0%**	**12,945**	**100.0%**	**(1,277)**	**(9.9)%**

In 2007, on the cost side EBITDA was impacted by the following:

- **Acquisition of goods and services** increased by 353 million, or 2.5%, from 13,902 million in 2006 to 14,255 million in 2007. This increase was mainly due to the expansion of BroadBand, higher interconnection costs as a result of the growth of traffic managed, as well as the increase in costs for the purchase of products and content.

Table of Contents

Acquisition of goods and services included:

	Year ended December 31,		
	2007	2006	Changes
	(millions of Euro)		
Purchase of raw materials and merchandise	2,635	2,582	53
Portion of revenues due to other TLC operators and interconnection costs	5,850	5,961	(111)
Commercial and advertising costs	2,210	2,032	178
Power, maintenance and outsourced services	1,220	1,107	113
Rent and leases	595	554	41
Other service expenses	1,745	1,666	79
Total	**14,255**	**13,902**	**353**

In 2007 the percentage of Acquisition of goods and services to revenues was 46.0% (44.8% in 2006).

- **Employee benefits expenses**

Details are as follows:

	Year ended December 31,		
	2007	2006	Changes
	(millions of Euro)		
Employee benefits expenses Italian companies:			
• Ordinary employee costs and benefits	3,544	3,336	208
• Inclusion of Shared Service Center in scope of consolidation	11		11
• Profit bonuses accrued in 2006 and no longer due following agreements with the unions in June 2007	(79)	79	(158)
• Actuarial recalculation of the provision for employee severance indemnity (according to the law on supplementary pension benefits)	(59)		(59)
Total employee benefits expenses Italian companies	**3,417**	**3,415**	**2**
Employee benefits expenses foreign companies:			
• Ordinary employee costs and benefits	390	326	64
• Entel Bolivia group	15		15
Total employee benefits expenses foreign companies	**405**	**326**	**79**
Total employee benefits	**3,822**	**3,741**	**81**

The increase relating to employees in Italy was impacted by higher new minimum contract terms (80 million for the increase starting from October 2006 for the two-year economic period 2005/2006, as established by the December 3, 2005 Agreement for the telecommunications collective national labor agreement, and the increase starting from October 2007 for the two-year economic period 2007/2008, as established by the July 31, 2007 Agreement for the telecommunications collective national labor agreement), higher expenses for termination benefit incentives (80 million) and the inclusion in the scope of consolidation of the company Shared Service Center. These increases were offset by decreases relating to the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-Tim Italia. Other factors which offset the increase were the positive effects on the actuarial calculation regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (-   59 million) and a reduction in the average number of the salaried work force (2,262 people) of the Italian companies.

With respect to the foreign companies, ordinary benefits expenses were influenced in part by the inclusion of the AOL internet business in Germany.

105

Table of Contents

The Group s average number of salaried workforce was as follows:

	Year ended December 31, 2007	2006 (Units)	Changes
Average salaried workforce Italy	64,431	66,693	(2,262)
Average salaried workforce Foreign(1)	13,847	11,959	1,888
Total average salaried workforce	**78,278**	**78,652**	**(374)**
Non-current assets held for sale Foreign	1,350	1,620	(270)
Total average salaried workforce including Non-current assets held for sale	**79,628**	**80,272**	**(644)**

(1) The change from 2006 includes the addition of AOL Germany s average employees of 1,033 units.

Group employees at December 31, 2007 and 2006 were as follows:

	Year ended December 31, 2007	2006 (units)	Changes
Employees Italy	66,951	68,823	(1,872)
Employees Foreign	15,118	13,104	2,014
Total Employees excluding Non-current assets held for sale(1)	**82,069**	**81,927**	**142**
Non current assets held for sale	1,360	1,282	78
Total Employees including Non-current assets held for sale	**83,429**	**83,209**	**220**

(1) Includes employees with temp work contracts: 1,969 at December 31, 2007 and 2,623 at December 31, 2006.

- **Other operating expenses**

The table below sets forth, for the periods indicated, other operating expenses.

	Year ended December 31, 2007	2006 (millions of Euro)	Changes
Impairments for bad debts and expenses connected with non-financial receivables management	951	549	402
Provision charges	323	106	217

Telecommunications operating fees and charges	283	236	47
Taxes on revenues of Brazilian companies	266	222	44
Indirect duties and taxes	155	154	1
Penalties, compensation and administrative sanctions	60		60
Association dues and fees, donations, scholarships and traineeships	25	16	9
Sundry expenses	168	241	(73)
Total	**2,231**	**1,524**	**707**

The increase in Other operating expenses in 2007 compared to 2006 is mainly due to the Domestic Business Unit and, to a lesser degree, to the Brazil Business Unit.

The following were the most important factors:

- higher impairments for bad debts relating to the management of overdue receivables from mobile telephone customers with post-paid type contracts and uncollectible receivables due from fixed telephone customers where the contracts had been terminated as well as higher expenses connected with the management of receivables regarding settlements with other operators;

- higher provision charges recorded in respect of the negative development on disputes of a regulatory nature with other fixed and mobile telephone operators occurring during the last few months of the year as well as a fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices.

v **DEPRECIATION AND AMORTIZATION, GAINS (LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS**

- **Depreciation and amortization** increased by 281 million, or 5.2% from 5,393 million in 2006 to 5,674 million in 2007. In particular:

  amortization of Intangible assets with a finite useful life increased by 179 million, or 8.4%, in 2007 mainly in connection with higher amortization charges on capitalized Subscriber Acquisition Costs (**SAC**) related to contracts with a minimum contractual period of 12 or 24 months which include an enforced termination penalty, as well as the effect of changes in exchange rates;

  depreciation of tangible assets (owned and held under finance lease) increased by 102 million, or 3.1%. The increase was mainly due to the higher capital expenditures for the development of infrastructure for the Domestic mobile business as well as the European BroadBand Business Unit.

- **Gains (losses) on disposals of non-current assets** decreased by 100 million, from a net gain of 105 million in 2006 to a net gain of 5 million in 2007. Such item includes the release of a portion of the gain deferred at the time of the sale of properties to Tiglio II (10 million), partly offset by net losses (5 million). In 2006, this item included 135 million of gains, net of transaction costs, relating to the sale of properties to the closed-end real estate investment funds Raissa and Spazio Industriale, 27 million for the gain on the sale of the entire investment in Ruf Gestion, 33 million for the loss on the sale of the entire investment in Telecom Italia Learning Services, 9 million for the loss on the sale of the Radio-maritime business and 15 million of other net losses.

- **Impairment losses on non-current assets** increased by 22 million, from 22 million in 2006 to 44 million in 2007, and included 22 million of writedowns on intangible assets and 22 million of writedowns on tangible assets referring to certain software projects and unutilized equipment mainly concentrated in the Domestic and Olivetti Business Units.

v **OPERATING PROFIT**

Operating profit decreased by 1,680 million, or 22%, from 7,635 million in 2006 to 5,955 million in 2007. As a percentage of revenues, operating profit was 19.2% in 2007 (24.6% in 2006).

v **SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

Details are as follows:

	Year ended December 31, 2007	2006 (millions of Euro)	Changes
ETECSA.	49	47	2
Sofora Telecomunicaciones S.A.	25	3	22
Tiglio I e Tiglio II	11	(2)	13
Solpart Participações S.A.		1	(1)
Other investments	1	2	(1)
Total	**86**	**51**	**35**

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.6 Other Telecom Italia Group Operations , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **OTHER INCOME (EXPENSES) FROM INVESTMENTS**

Details are as follows:

	Year ended December 31, 2007	2006	Changes
	(millions of Euro)		
Dividends from Other investments	7	19	(12)
Net gains on disposals of Other investments	462	221	241
Writedown of Other investments	(2)	(3)	1
Total	**467**	**237**	**230**

In 2007 other income (expenses) from investments included, in particular, the gain on the sale of the entire stakes held in Oger Telecom (86 million), Capitalia (38 million), Mediobanca (109 million), Solpart Participações (201 million) and Brasil Telecom Participações (27 million).

In 2006, this item included, in particular, gains realized on the sale of the entire holding in Neuf Télécom (148 million) and the sale of AVEA I.H.A.S. (72 million).

v **FINANCE INCOME (EXPENSES)**

Details are as follows:

	Year ended December 31, 2007	2006	Changes
	(millions of Euro)		
Fair value measurement of the call options for 50% of Sofora Telecomunicaciones share capital	70	30	40
Early termination of cash flow hedge derivatives	55		55
Net finance expenses, fair value adjustments of derivatives and other items	(2,309)	(2,230)	(79)
Total	**(2,184)**	**(2,200)**	**16**

Net finance income (expenses) was affected by the following factors:

- the valuation at fair value of the call options on 50% of the share capital of Sofora Telecomunicaciones, resulting in a positive adjustment of 70 million in 2007 (30 million in 2006);

- the positive net effect (55 million in 2007) of the closing of cash flow hedge derivatives following the early repayment of 1,500 million of the Term Loan for a total amount of 3,000 million due 2010.

In 2006, net finance income and expenses was positively impacted by the release to income of the remaining provisions set up for the guarantees provided to banks in connection with our investment in Turkey and cancelled in the month of September 2006 (121 million).

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v INCOME TAX EXPENSE

Income tax expense for the year decreased by 837 million, or 33.2%, from 2,520 million in 2006 to 1,683 million in 2007. This decrease was not only due to a decrease in taxable income but also to the tax benefit represented by the recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of subsidiaries residing in the European Union following the issue of Decree Law 10 dated February 15, 2007, converted with Law 46/2007, for a gross amount of 143 million; such gross benefit was reduced by the relevant tax effect of 47 million, which reduced the net positive impact to 96 million.

v **PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

Loss from Discontinued operations/Non-current assets held for sale decreased by 14 million, from 200 million in 2006 to 186 million in 2007.

In 2007 such item included:

- the negative contribution to consolidated results by Liberty Surf group, equal to 222 million;
- the release to income of 40 million of the provision previously recorded in connection with the sale of Tim Hellas carried out in 2005 as well as provision charges and expenses in connection with transactions for sales which occurred in 2006 and in prior years.

In 2006, such item included, in particular, the negative contribution to consolidated results by Liberty Surf group, equal to 207 million.

5.3.8 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2007 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2006.

v **DOMESTIC**

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31,			
	2007 (a)	2006 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	24,220	25,785	(1,565)	(6.1)%
EBITDA	10,174	11,893	(1,719)	(14.5)%
• *% of Revenues*	*42.0*	*46.1*		
Operating profit	5,751	7,676	(1,925)	(25.1)%
• *% of Revenues*	*23.7*	*29.8*		
Capital expenditures	4,064	3,894	170	4.4%
Employees at year-end (units)	64,362	66,835	(2,473)	(3.7)%

Revenues decreased by 1,565 million, or 6.1%, from 25,785 million in 2006 to 24,220 million in 2007.

In 2007, in particular revenues were affected by the following regulatory changes:

- the reduction in the termination rates which occurred in the second half of 2006 (209 million);
- the effects of the application of the Bersani Decree beginning from March 2007 (estimated at 404 million net of approximately 226 million due to the positive impact of flexibility higher traffic volumes as a result of the reduction in average rate price pressure owing to the elimination of top-up charges without increasing the minute rate);
- the rate adjustments for international roaming traffic within the EU, in accordance with the decisions of the European Commission (estimated at 88 million); and
- starting from January 1, 2007 and following a change in Regulations and agreement on new contracts with OLOs relating to calls by customers to NGNs of such OLOs, Telecom Italia no longer recognizes the revenues and related interconnection costs associated with the traffic generated by such calls, which in 2006 resulted in the recognition of revenues and costs of 442 million.

In total, compared to the prior year, these changes (including the NGNs effect) amounted to 1,143 million.

A breakdown of the various components of the Business Unit s revenues are as follows:

	Year ended December 31,			
	2007	2006	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Fixed Telecommunications	15,727	16,988	(1,261)	(7.4)%
Mobile Telecommunications	9,922	10,210	(288)	(2.8)%
Eliminations and central functions contribution	(1,429)	(1,413)	(16)	(1.1)%
	24,220	**25,785**	**(1,565)**	**(6.1)%**

An analysis of the main components of the Business Unit s revenues is as follows:

- **Revenues from Fixed Telecommunications** decreased by 1,261 million, or 7.4%, from 16,988 million in 2006 to 15,727 million in 2007.

The performance of the major business areas was as follows:

Retail voice

	Year ended December 31,					
	2007		2006		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
Traffic	3,524	42.2%	3,887	41.8%	(363)	(9.3)%
Access	3,938	47.1%	4,116	44.2%	(178)	(4.3)%
VAS	357	4.3%	606	6.5%	(249)	(41.1)%
Telephony Products	539	6.4%	699	7.5%	(160)	(22.9)%
Total Retail voice	**8,358**	**100.0%**	**9,308**	**100.0%**	**(950)**	**(10.2)%**

Revenues from Retail voice services were 8,358 million in 2007, a decrease of 950 million (10.2%) compared to 2006.

Excluding the effect of the above-mentioned changes relating to NGNs, the reduction was 7.5% and was mainly due to traffic (a decrease of 329 million, or 8.5%) and access (a decrease of 178 million, or 4.3%). With respect to traffic, the decrease was due to lower volumes and prices, especially on fixed-mobile traffic and national traffic. The first was affected by the migration of volumes from fixed to mobile traffic and the cut in fixed-mobile termination rates while the second was hurt by the decline in the prices associated with a higher penetration of flat rate plans principally with retail customers and the lower volumes were also produced by a smaller customer base. The smaller customer base also led to a strong contraction in traditional access revenues compared to 2006.

Internet

	Year ended December 31,					
	2007		2006		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
NarrowBand	84	5.7%	280	18.5	(196)	(70.0)%
BroadBand	1,384	94.3%	1,231	81.5	153	12.4%
of which contents/portal	*78*		*54*		*24*	
Total Internet	**1,468**	**100.0%**	**1,511**	**100.0%**	**(43)**	**(2.8)%**

Revenues from Internet, were 1,468 million in 2007, a decrease of 43 million (2.8%) compared to 2006.

Excluding the effect attributable to the above-mentioned changes relating to NGNs, the change would have been an increase in revenues of 128 million (9.6%) compared to 2006. The increase was due to the continuing strong growth of BroadBand and Content revenues which recorded increases of 11.1% and 44.4%, respectively, compared to 2006 (+ 154 million in total).

The overall portfolio of BroadBand accesses on the domestic market reached 7.6 million customers, of which 6.4 million were Retail. The strategy encouraging the migration of customers to innovative BroadBand access solutions continued; these solutions allow the use of new-generation IP services and applications: in particular, Flat and Semiflat rate plans reached 64% of the entire Alice Consumer customer portfolio and the VoIP customer portfolio grew to 1.3 million accesses representing approximately 20% of total Retail BroadBand accesses. Expansion was also moving forward in IPTV services on the Consumer market and in the development of web content and services.

Data Business

	Year ended December 31,					
	2007		2006		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
Leased lines	239	14.3%	273	15.7%	(34)	(12.5)%
Traditional TD	71	4.2%	164	9.4%	(93)	(56.7)%
Innovative TD	510	30.5%	482	27.6%	28	5.8%
Data Products	208	12.4%	223	12.8%	(15)	(6.7)%
ICT Services	645	38.6%	601	34.5%	44	7.3%
Total Data Business	**1,673**	**100.0%**	**1,743**	**100.0%**	**(70)**	**(4.0)%**

Revenues from the Data Business area, equal to 1,673 million in 2007, declined by 70 million (4.0%) compared 2006. The reduction was recorded almost entirely in the first quarter of 2007. This decline, due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration, is particularly evident in traditional Data Transmission services, ICT services, however, continued to register dynamic growth, increasing 44 million (7.3%) compared to 2006, and BroadBand Data recorded an increase of 28 million compared to 2006, or 5.8%.

Wholesale

	Year ended December 31,					
	2007		2006		Changes	
	(a)	%	(b)	%	(a-b)	%
	(millions of Euro, except percentages)					
National Wholesale	2,374	62.7%	2,131	53.4%	243	11.4%
International Wholesale	1,412	37.3%	1,858	46.6%	(446)	(24.0)%
Total Wholesale	**3,786**	**100.0%**	**3,989**	**100.0%**	**(203)**	**(5.1)%**

Revenues from Wholesale services amounted to 3,786 million in 2007, an overall decrease of 203 million (5.1%) compared to 2006.

Revenues from national wholesale services were 2,374 million an increase of 243 million (or 11.4%) compared to 2006. This was mainly attributable to regulated services (an increase of 127 million for the growth of unbundled lines) and wholesale data (an increase of 84 million due to the increase in the customer base of other operators). International wholesale services recorded revenues of 1,412 million in 2007, a decrease of 446 million, or 24.0%, compared to 2006 due to the decline in revenues from transit traffic previously generated by certain contracts which were terminated by Telecom Italia starting from the second quarter of 2007.

- **Revenues from Mobile Telecommunications,** were 9,922 million in 2007, a decrease of 2.8% (a decrease of 2.7% in revenues from services).

The lower revenues reflect a downward adjustment of 56 million as a result of the award set by the arbitration board in the case with H3G regarding termination rates on traffic originated and received between the two operators. The arbitration board, sided with H3G on the invalidity of the contractual agreements signed by the parties, which, for the period September 1, 2005 to December 31, 2007, had called for the payment of termination rates on the Telecom Italia network that were higher than the maximum prices set by the AGCom in its resolutions 285/05/CONS and 03/06/CONS, and confirmed the mandatory retroactive effectiveness of such resolutions.

Revenues were also affected by the negative impact of the Bersani Decree, the change in fixed-mobile termination rates and the rate adjustment for international roaming traffic within the European Union in accordance with rulings by the European Commission.

In particular:

- **Outgoing voice revenues** were 5,241 million in 2007 and decreased by 307 million, or 5.5%, compared to 2006.
- **Incoming voice revenues** were 1,514 million in 2007 and decreased by 229 million, or 13.1%, compared to 2006.
- **Value-Added Services revenues** continued to grow, totaling 1,928 million in 2007 in the retail segment. This represented an increase of 16.9% compared to 2006 and was attributable to continuing innovations in the offering concept and portfolio and greater penetration of interactive and mobile BroadBand services (revenues from national browsing +60%).
- **Handset sale revenues** totaled 773 million in 2007, a decrease of 38 million (4.7%) compared to 2006 mainly due to continually decreasing average prices.

At December 31, 2007, the number of Telecom Italia mobile lines was 36.3 million (of which 6.1 million were UMTS, accounting for 16.8% of total lines), with a growth of 3.9 million compared to December 2006, and a steady market share at 40.3%.

EBITDA of the Domestic Business Unit was 10,174 million, a decrease of 1,719 million compared to 2006, with the percentage of EBITDA to revenues at 42.0% (46.1% in 2006). EBITDA was adversely impacted by the overall decline in revenues in all categories, as well as a total of 487 million due to the above-mentioned regulatory changes, of which:

- 404 million was due to the elimination of top-up charges, net of the previously mentioned positive effect of flexibility for 226 million;

- 54 million was due to the change in fixed-mobile termination rates; and

- 29 million was due to the rate adjustment for international Roaming traffic within the EU in accordance with the decisions of the European Commission.

In 2007, on the cost side EBITDA was impacted by the following:

- *Acquisition of goods and services* totaled 10,215 million and decreased by 534 million (-5.0%) compared to 2006. The decrease was mainly due to the reduction in the amount to be paid to other operators following the previously mentioned contractual changes relating to NGN and lower international Wholesale transit traffic. This effect was partially offset by the increase in the amount generated by changes in the termination rates of voice calls on the fixed and mobile networks of other operators. Added to that was the increases in the costs for the acquisition of equipment for resale, selling and advertising expenses, lease installments (property, circuits, use of satellite systems, etc.) as well as costs relating to the lease of radio base stations for mobile telephony and costs for the utilization of television rights.

Table of Contents

- *Employee benefits expenses*, were 3,282 million in 2007, comparable to the 3,276 million in 2006.

	Year ended December 31, 2007	2006	Changes
	(millions of Euro)		
Employee benefits expenses at payroll:			
• Ordinary employee benefits	3,412	3,197	215
• Profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007	(79)	79	(158)
• Actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits	(51)		(51)
Total employee benefits expenses	**3,282**	**3,276**	**6**

Employee benefits expenses were 3,282 million, an amount basically in line with 2006 (an increase of 6 million). The positive effects from the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of Telecom Italia with the payment criteria established for ex-Tim Italia, and the actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (- 51 million) were offset by higher costs for employee termination incentives (an increase of 82 million) and higher costs connected with the increase in the new minimum contract terms, from October 2006 for the two-year economic period 2005-2006 and from October 2007 for the two-year economic period 2007-2008.

- *Other operating expenses* amounted to 1,338 million (an increase of 516 million compared to 2006). The increase was principally attributable to higher impairment losses and expenses connected with credit management (an increase of 287 million, arising from the increase in overdue mobile telephone receivables relating to post-paid contracts, the increase in receivables from fixed telephone customers where the contracts had been terminated and the settlements reached with other operators), higher accruals to provisions due to unfavorable developments occurring during the last months of the year regarding disputes of a regulatory nature with other operators and the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices (an increase of 201 million).

Operating profit decreased by 1,925 million in 2007, or 25.1%, from 7,676 million in 2006 to 5,751 million in 2007, with the percentage of Operating profit to revenues at 23.7% (29.8% in 2006).

In addition to the decline in operating profit attributable to the decline in revenues, operating profit performance was also adversely affected by the reduction in net gains on disposals of non-current assets of 96 million (2006 had benefited from gains on transactions for the sale of properties) and higher write-downs for 17 million mainly in reference to software projects and unutilized equipment and telephonic material in the process of being replaced with more technologically advanced equipment. Depreciation and amortization increased compared to 2006 by 93 million mainly due to depreciation taken on mobile telephony installations and amortization recorded on capitalized Subscriber Acquisition Costs relating to some specific sales plans for mobile telephony introduced in 2006, offset in part by the reduction in amortization charges on software.

* * *

Capital expenditures were 4,064 million (an increase of 170 million compared to 2006, or 4.4%). The percentage of capital expenditures to revenues was equal to 16.8% (15.1% in 2006). The increase in investments indicates the constant attention paid by the Group to the modernization and innovation of the network, technologies and services.

Employees were 64,362 and included 1,278 employees with temp work contracts (1,599 at December 31, 2006). The reduction of 2,473 employees since December 31, 2006 was primarily due to the termination of employment in conjunction with employee termination benefit incentives and early retirements agreements under Law 223/1991.

Table of Contents

v **BRAZIL**

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

	Year ended December 31,					
	2007	2006	2007	2006	Changes	
			(a)	(b)	(a-b)	%
	(millions of Euro, except percentages and employees)		(millions of BRL, except percentages and employees)			
Revenues	4,990	3,964	13,293	10,836	2,457	22.7%
EBITDA	1,207	950	3,214	2,596	618	23.8%
% of Revenues	*24.2*	*24.0*	*24.2*	*24.0*		
Operating profit	150	21	399	58	341	
% of Revenues	*3.0*	*0.5*	*3.0*	*0.5*		
Capital expenditures	865	699	2,305	1,910	395	20.7%
Employees at year-end (units)	10,030	9,531	10,030	9,531	499	5.2%

Revenues were BRL 13,293 million in 2007 compared to BRL 10,836 million in 2006, an increase of BRL 2,457 million, or 22.7%. The increase was due to growth in both voice services and value-added services sustained by the continuing expansion of the customer base (31.3 million mobile lines at December 31, 2007 compared with 25.4 million mobile lines at December 31, 2006) and the success of commercial offerings.

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the Bill and Keep regulation under which Mobile Operators, until that date, did not receive or pay interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with an operator fell within a 45-55 range. This change had a positive impact on revenues in 2007 and 2006.

EBITDA was BRL 3,214 million in 2007 compared to BRL 2,596 million in 2006, an increase of BRL 618 million, or 23.8%. As a percentage of revenues, EBITDA was 24.2% and was 0.2% higher than in 2006.

The good sales performance mirrored in the growth in revenues was partially absorbed by higher sales costs for the promotion of new customer acquisitions, new converging product launches and customer retention initiatives. Moreover, as a result of implementing the new system for credit and collection management in the third quarter of 2007, the company conducted an in-depth analysis of the trade receivables for installment sales of cell phone equipment and consequently recorded lower receivables for a total of BRL 173.3 million. This adjustment resulted in a reduction in revenues of BRL 54.7 million for installment sales for which, as part of the above customer retention initiatives, it was decided not to take action to recover the receivables from these customers. As a result, a loss on receivables of BRL 118.6 million was recognized for installments sales made to parties which at this date were not active customers of the company.

With regard to costs performance, the following should be noted:

- *acquisition of goods and services* were BRL 7,487 million in 2007, an increase of 23.9% compared to 2006 (BRL 6,042 million), mainly due to the increase in interconnection charges and the elimination of Bill and Keep regulation;

- *employee benefits expenses* were BRL 595 million in 2007 and increased by BRL 25 million (or 4.4%) compared to 2006 due to the increase in the workforce numbers. Employee benefits expenses as a percentage of gross revenues were 4.5% in 2007 (5.3% in 2006);

- *other operating expenses* were BRL 2,185 million in 2007 and increased by 24.6% compared to 2006 (BRL 1,754 million). They include sundry expenses (BRL 1,422 million in 2007 compared to BRL 1,274 million in 2006), mainly related to indirect taxes and TLC operating fees, impairments, bad debts expense and losses (BRL 715 million in 2007 compared to BRL 449 million in 2006) and other items (BRL 48 million in 2007 compared to BRL 31 million in 2006).

Operating profit in 2007 was BRL 399 million compared to BRL 58 million in 2006, an improvement of BRL 341 million. The improvement in 2007 was due to the above mentioned increase in revenues, although such increase was offset in large part by higher depreciation and amortization charges. Depreciation and amortization were BRL 2,791 million in 2007 compared to BRL 2,540 million in 2006 as a consequence of higher investments in network infrastructure, information systems and subscriber acquisition costs. The latter costs (referring to subsidies for the purchase of handsets when there are contracts binding the customer to the company for a period of at least 12 months, with a penalty applied in the event of the early cancellation of the contract) are capitalized and amortized over the minimum period of the underlined contract; in 2007, such costs resulted in higher amortization of BRL 361 million (BRL 158 million in 2006).

* * *

Capital expenditures in 2007 amount to BRL 2,305 million (BRL 1,910 million in 2006), with an increase of BRL 395 million, directed toward expenditures to increase the customer base, for which an amount of BRL 377 million was capitalized during the year.

Employees at December 31, 2007 were 10,030, up 5.2% compared to December 31, 2006 (9,531).

v **EUROPEAN BROADBAND**

Starting from January 1, 2008, the Liberty Surf group has been treated as a Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. Data relating to 2007 and 2006 for comparison purposes have been restated.

The following table sets forth, for the periods indicated, certain financial and other data for the European BroadBand business.

	Year ended December 31,			
	2007 (a)	2006 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	1,151	605	546	90.2%
EBITDA	297	176	121	68.8%
• *% of Revenues*	*25.8*	*29.1*		
Operating profit	122	73	49	67.1%
• *% of Revenues*	*10.6*	*12.1*		
Capital expenditures	358	214	144	67.3%
Employees at year-end (units)	3,191	1,784	1,407	78.9%

GERMANY (HanseNet + TI Deutschland)

	Year ended December 31,			
	2007	2006	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Revenues	1,074	528	546	103.4%
EBITDA	281	145	136	93.8%
• *% of Revenues*	*26.2*	*27.5*		
Operating profit	126	63	63	100.0%
• *% of Revenues*	*11.7*	*11.9*		
Capital expenditures	344	196	148	75.5%

THE NETHERLANDS (BBNed)

	Year ended December 31,			
	2007	2006	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages)			
Revenues	77	77		
EBITDA	16	30	(14)	(46.7)%
• *% of Revenues*	*20.8*	*39.0*		
Operating profit (loss)	(4)	10	(14)	
• *% of Revenues*	*(5.2)*	*13*		
Capital expenditures	14	17	(3)	(17.6)%

Table of Contents

Revenues were 1,151 million in 2007 compared to 605 million in 2006, an increase of 546 million, or 90.2%. Such increase was due to growth in the BroadBand customer portfolio, due both to the growth of commercial operations and as a result of the acquisition of AOL internet business in Germany, which at December 31, 2007 reached 2.5 million accesses (1.1 million of which related to the acquisition of AOL Germany). Similarly, at the end of 2007, the Narrowband customer portfolio was 0.7 million accesses as a result of the acquisition of AOL Germany.

Revenues from business conducted in **Germany**, 1,074 million in 2007, increased by 546 million, or 103.4% compared to 2006. The BroadBand customer portfolio in Germany at December 31, 2007 reached more than 2.3 million accesses and grew by approximately 1.4 million compared to December 31, 2006; the growth would be 0.3 million if the accesses attributable to new acquisitions are excluded.

The Netherlands contributed 77 million to total revenues, in line with 2006 performance. The customer portfolio was 188,000 at December 31, 2007 a number that is stable compared to December 31, 2006. The loss of lines in Wholesale ADSL (-54,000) was offset by the growth of Retail ADSL and Fiber customers (+56,000).

EBITDA was 297 million in 2007 compared to 176 million in 2006, an increase of 121 million, or 68.8%. EBITDA benefited from the significant increase in revenues offset in part by a significant increase in costs.

The increase in costs was attributable to the following:

- *acquisition of goods and services* amounted to 742 million in 2007, with an increase of 94.8%, or 361 million compared to 381 million in 2006, on a par with the growth in the business;

- *employee benefits expenses* amounted to 126 million in 2007 and increased by 64 million, or 103.2%, compared to 62 million in 2006, partly due to the increase in the number of employees as a result of the acquisition of AOL Germany.

Operating profit increased by 49 million (122 million in 2007 compared to 73 million in 2006). This improvement was achieved despite a considerable increase in depreciation and amortization (an increase of 72 million in 2007), mainly due to significant capital expenditures in network infrastructures and information systems.

* * *

Capital expenditures were 358 million in 2007 compared to 214 million in 2006, an increase of 144 million, or 67.3%. This increase was mainly due to technical projects (network and IT) and higher Customer Activations largely due to LLU access at the exchanges of the incumbent operators and partners (Telefónica and QSC in Germany).

Employees at December 31, 2007 were 3,191, an increase of 1,407 compared to December 31, 2006. The increase is principally due to the AOL Germany acquisition (1,101 people), with the remaining number attributable to the growth of the operating departments (call centers and networks/IT) of HanseNet and the BBNed Group.

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,			
	2007	2006	Changes	
	(a)	(b)	(a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	263	207	56	27.1%
EBITDA	(55)	(83)	28	33.7%
• *% on Revenues*	*(20.9)*	*(40.1)*		
Operating profit (loss)	(117)	(137)	20	14.6%
• *% on Revenues*	*(44.5)*	*(66.2)*		
Capital expenditures	69	85	(16)	(18.8)%
Employees at year-end (units)	1,016	919	97	10.6%

116

Revenues increased by 56 million, or 27.1%, from 207 million in 2006 to 263 million in 2007. The increase in revenues was due to the increase in the gross domestic advertising business (+11.6%), which outpaced the flat sale of the Italian advertising market s television sector which increased only 1.2% in 2007 (source Nielsen), confirming the consensus of the editorial content of the broadcasting of the two channels and the considerable increase in the revenues of the Digital Terrestrial TV platform as a result of broadcasting Serie A soccer games.

In particular:

- **revenues from Free to Air analog business area** amounted to 160 million in 2007, an increase of 10.9% compared to the prior year. The revenues of La7 and MTV from analog broadcasting grew, respectively, by 15.8% and 7.8% and advertising on La7 increased by 15.8%;
- **revenues from Multimedia operations** amounted to 32 million in 2007, an increase of 33.5% compared to the prior year and benefited from the considerable advertising contribution, especially on internet platforms;
- **revenues from Digital Terrestrial TV operations** amounted to 63 million in 2007, an increase of 99.0% compared to 2006. The increase in revenues benefited from development of the commercial La7 Cartapiù offering and was achieved partly as a result of the positive contribution deriving from the agreements reached with Mediaset and Telecom Italia for broadcasting the audio-visual content of Serie A soccer games on the DTT and DVB-H platforms;
- **revenues from News business area** amounted to 10 million in 2007, an increase of 8.6% compared to 2006.

EBITDA in 2007 was a negative 55 million, an improvement of 28 million (an increase of 33.7%) compared to a negative EBITDA in 2006 of 83 million.

Profitability during 2007 improved by 27 million in **Digital Terrestrial operations** compared to 2006, and in addition to growth in revenues (+ 31 million), a more efficient management of the platform and the impact of steps taken to rationalize costs on the digital Free to Air channels (La7 Sport and QOOB) contributed to this improvement.

Profitability of the **Multimedia operations** also recorded an improvement over the prior year, increasing from 8 million to 11 million due to the positive contribution of advertising which grew by 25.9%.

While revenues for **Free to Air business area** increased as described above, operating profit was affected by the impact of actions that had begun in the prior year aimed at concentrating resources for focusing the broadcasting schedule on programs with a higher audience/advertising return. As a result, during the last part of the year, higher costs were incurred in comparison with 2006 and EBITDA consequently went from a negative 31 million in 2006 to a negative 32 million in 2007.

Operating profit (loss) in 2007 was a loss of 117 million, improving by 20 million compared to 2006. The reduction in the operating loss, previously described, was reduced in part by higher depreciation and amortization charges during the year (+ 7 million) as a consequence of capital expenditures made for the digital network infrastructures, the economic return of which has been delayed due to the known issues surrounding the postponement of the switch off.

* * *

Capital expenditures decreased by 16 million, or 18.8% from 85 million in 2006 to 69 million in 2007 and mainly refer to investments in the Television area in connection with Digital Terrestrial activities (29 million) and the acquisition of television rights (26 million).

Employees at December 31, 2007 were 1,016 (919 at December 31, 2006) and include 72 people with temp work contracts (47 at December 31, 2006). The increase was principally attributable to the new IPTV and BroadBand Content areas and the expansion of the Regulatory Affairs structure and was closely related to Telecom Italia Media s mission as the Content Competence Center of the Telecom Italia Group.

v **OLIVETTI**

Key results by the Olivetti Business Unit in 2007 compared to 2006 are presented in the following table:

	Year ended December 31,			
	2007 (a)	2006 (b)	Changes (a-b)	%
	(millions of Euro, except percentages and employees)			
Revenues	408	440	(32)	(7.3)%
EBITDA	(44)	(33)	(11)	(33.3)%
• *% on Revenues*	*(10.8)*	*(7.5)*		
Operating profit (loss)	(66)	(50)	(16)	(32.0)%
• *% on Revenues*	*(16.2)*	*(11.4)*		
Capital expenditures	8	10	(2)	(20.0)%
Employees at year-end (units)	1,279	1,428	(149)	(10.4)%

Revenues decreased by 32 million, or 7.3%, from 440 million in 2006 to 408 million in 2007.

With respect to business lines, the decrease in revenues in 2007 can be ascribed mainly to lower sales of ink-jet products and accessories, particularly in the last months of 2007, as well as gaming products, partially offset by revenues of new Carsoli activities and by starting of new hire agreements. Printers used for banking applications, although reporting lower sales because of the weakness of the U.S. dollar against the euro, grew during the period in terms of sales volumes by 13% compared to 2006.

EBITDA decreased by 11 million, or 33.3%, from a loss of 33 million in 2006 to a loss of 44 million in 2007.

The negative EBITDA can mainly be ascribed to multifunctional products. In view of the persisting negative situation recorded by Olivetti, which was forecast to continue with regard to the prospects of the multifunctional products segment, a series of actions was taken with the aim of bringing about a rapid economic turnaround of the Business Unit.

These actions resulted in the recognition of restructuring and reconversion expenses during the year which, at the level of EBITDA, amounted to 25 million. Of this amount, 7 million was composed of costs connected with a reduction in employees, 7 million to inventory writedowns and 10 million to expenses and other accruals.

Such expenses were mainly due to the decision to halt the development, manufacture and marketing of multifunctional products and also refer to other phenomena (the above writedowns and accruals include 4 million concerning non-multifunctional product lines).

Operating loss increased by 16 million, or 32.0%, from 50 million in 2006 to 66 million in 2007. Restructuring and reconversion costs at the level of EBIT amounted to 32 million, 25 million of which is described under EBITDA and 6 million was for the impairment loss on industrial assets relating to multifunctional products.

* * *

Capital expenditures decreased by 2 million, or 20.0%, from 10 million in 2006 to 8 million in 2007.

Employees at December 31, 2007 were 1,279, of whom 1,143 in Italy and 136 outside Italy. The reduction of 149 employees, compared to December 31, 2006, was mainly attributable to the termination of employment and to a lesser degree to infragroup transfers to Telecom Italia.

5.4 LIQUIDITY AND CAPITAL RESOURCES

The reduced liquidity and volatility of the financial markets resulted in the Telecom Italia Group adopting a more conservative approach than the liquidity test described below, and, at the end of 2008, the Telecom Italia Group had a treasury margin capable of meeting repayment obligations for the next 24 months. The Group was and is therefore able to enter the financial markets when it deems more appropriate, without making a change in its 2009 target of refinancing part of its maturing debt and still maintaining a high treasury margin.

The Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks. The Group defines the guidelines for directing operations, identifying the most appropriate financial instruments to meet prefixed objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

The Group s goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin in terms of liquid resources and syndicated committed credit lines which enables it to cover refinancing needs at least for the next 12-18 months.

5.4.1 LIQUIDITY

The Telecom Italia Group s primary source of liquidity is cash generated from operations and its principal uses of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders, and strategic investments, such as international acquisitions and investments.

For additional details, reference should be made to the Note Financial risk management in the annual consolidated financial statements at December 31, 2008 of the Telecom Italia Group.

The table below summarizes, for the periods indicated, the Telecom Italia Group s cash flows.

	Year ended December 31,		
	2008	**2007**	**2006**
		(millions of Euro)	
Cash flows from (used in) operating activities	8,405	8,771	9,303
Cash flows from (used in) investing activities	(6,874)	(4,398)	(4,239)
Cash flows from (used in) financing activities	(2,382)	(5,225)	(7,965)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(10)	72	(81)
Aggregate cash flows (A)	**(861)**	**(780)**	**(2,982)**
Net cash and cash equivalents (*) at beginning of the year (B)	**6,204**	**6,960**	**9,958**

Net foreign exchange differences on net cash and cash equivalents (C)	(117)	24	(16)
Net cash and cash equivalents (*) at end of the year (D=A+B+C)	**5,226**	**6,204**	**6,960**

(*) For further details please see the Consolidated Cash Flow Statements for the years ended December 31, 2008, 2007 and 2006 in the Consolidated Financial Statements included elsewhere in this Annual Report.

Cash flows from operating activities. Cash flows from operating activities were 8,405 million in 2008, 8,771 million in 2007 and 9,303 million in 2006.

2008 compared to 2007

The decrease in 2008 compared to 2007 of 366 million was primarily attributable to:

- a reduction of 397 million in profit from continuing operations (a profit of 2,244 million in 2008 compared to a profit of 2,641 million in 2007);

- the negative effect of net change in deferred tax assets and liabilities equal to 1,974 million (from a net source of 931 million in 2007 to a net use of 1,043 million in 2008);
- the negative effect of change in trade payables of 1,420 million (from a net source of 783 million in 2007 to a net use of 637 million in 2008).

Such reductions in cash flows were partially offset by:

- the decrease in net gains realized on disposals of non-current assets (including investments) of 430 million (from a net gain of 467 million in 2007 to a net gain of 37 million in 2008);
- the positive effect of change in employee benefits liabilities of 447 million (a net source of 233 million in 2008 compared to a net use of 214 million in 2007);
- the positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 1,416 million (a net source of 896 million in 2008 compared to a net use of 520 million in 2007);
- an increase in depreciation and amortization of 232 million (5,906 million in 2008 compared to 5,674 million in 2007);
- the positive effect of change in trade receivables and net amounts due from customers on construction contracts of 669 million (a net source of 748 million in 2008 compared to a net source of 79 million in 2007).

2007 compared to 2006

The decrease in 2007 compared to 2006 of 532 million was primarily attributable to:

- a reduction of 562 million in profit from continuing operations (a profit of 2,641 million in 2007 compared to a profit of 3,203 million in 2006);
- a negative effect of net change in deferred tax assets and liabilities equal to 913 million (from a net source of 1,844 million in 2006 to a net source of 931 million in 2007);
- the increase in net gains realized on disposals of non-current assets (including investments) of 141 million (from a net gain of 326 million in 2006 to a net gain of 467 million in 2007);
- the negative effect of change in employee benefits liabilities of 100 million (a net use of 214 million in 2007 compared to a net use of 114 million in 2006);

- the negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 355 million (a net use of 520 million in 2007 compared to a net use of 165 million in 2006).

Such reductions in cash flows were partially offset by:

- an increase in depreciation and amortization of 281 million (5,674 million in 2007 compared to 5,393 million in 2006);

- the positive effect of change in trade receivables and net amounts due from customers on construction contracts of 508 million (a net source of 79 million in 2007 compared to a net use of 429 million in 2006);

- the positive effect of change in trade payables of 836 million (a net source of 783 million in 2007 compared to a net use of 53 million in 2006).

Cash flows used in investing activities. Cash flows used in investing activities were 6,874 million in 2008, 4,398 million in 2007 and 4,239 million in 2006.

2008 compared to 2007

The increase in cash used in investing activities in 2008 compared to 2007 of 2,476 million was mainly due to:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 677 million (5,805 million in 2008 compared to 5,128 million in 2007);

- a negative effect of change in financial receivables and other financial assets of 1,813 million (a net use of 1,612 million in 2008 compared to a net source of 201 million in 2007);

- a decrease in proceeds from sale/repayments of intangible, tangible and other non-current assets of 1,065 million (a net source of 97 million in 2008 compared to a net source of cash of 1,162 million in 2007).

Such effects were partially offset by:

- an increase of 448 million in proceeds from sale of subsidiaries, net of cash disposed of (452 million in 2008 compared to 4 million in 2007);
- the acquisitions in 2008 of subsidiaries and businesses, net of cash acquired, was nil (in 2007 amounted to 636 million and were principally related to the purchase of the controlling interest of the Internet activities of AOL Germany, the entire stake of InterNLnet B.V. and Shared Service Center).

2007 compared to 2006

The increase in cash used in investing activities in 2007 compared to 2006 of 159 million was due to:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 253 million (5,128 million in 2007 compared to 4,875 million in 2006);
- the acquisitions in 2007 of subsidiaries and businesses, net of cash acquired, totaling 636 million (principally related to the purchase of the controlling interest of the Internet activities of AOL Germany, the entire stake of InterNLnet B.V. and Shared Service Center);
- a decrease of 341 million in proceeds from sale of subsidiaries, net of cash disposed of (4 million in 2007 compared to 345 million in 2006).

Such effects were partially offset by:

- a decrease in acquisitions of other investments of 205 million (1 million of acquisitions in 2007 compared to acquisitions of 206 million in 2006);
- a positive effect of change in financial receivables and other financial assets of 758 million (a net source of 201 million in 2007 compared to a net use of 557 million in 2006).

***Cash flows from (used in) financing activities*.** Cash flows used in financing activities were 2,382 million in 2008, 5,225 million in 2007 and 7,965 million in 2006.

Cash flows used in financing activities in 2008 of 2,382 million reflected mainly the following:

- a decrease in financial liabilities and other of 691 million, as a result of repayments of non-current financial liabilities (4,315 million) partially offset by the issuance of new debt (2,357 million) and the change in current financial liabilities and other (1,267 million);
- the payment of dividends of 1,665 million.

Cash flows used in financing activities in 2007 of 5,225 million reflected the following:

- a decrease in financial liabilities and other of 2,394 million, mainly as a result of repayments of non-current financial liabilities (5,218 million) partially offset by the issuance of new debt (2,622 million);
- the payment of dividends of 2,831 million.

Cash flows used in financing activities in 2006 of 7,965 million reflected mainly the following:

- a decrease in financial liabilities and other of 4,970 million, mainly as a result of repayments of non-current financial liabilities (9,993 million) partially offset by the issuance of new debt (5,219 million);
- the payment of dividends of 2,997 million.

5.4.2 CAPITAL RESOURCES

Net Financial Debt

Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see 5.3.2 Non-GAAP Financial Measures .

Table of Contents

Item 5. Operating And Financial Review And Prospects **Liquidity And Capital Resources**

On a consolidated basis, at December 31, 2008 Net Financial Debt was 34,039 million compared to 35,701 million at December 31, 2007 (a decrease of 1,662 million).

Given the ratio:

Net Financial Debt
EBITDA

we have targeted a ratio of about 2.3 to be achieved by the end of 2011.

The net financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities.

Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 , included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors .

There can be no assurance that we will be able to achieve the financial target we have established.

Net Financial Debt is detailed in the following table:

	As of December 31,		
	2008	**2007**	**2006**
	(millions of Euro)		
GROSS FINANCIAL DEBT			
Non-current financial liabilities (Long-term debt)			
Financial payables	31,936	33,299	37,391
Finance lease liabilities	1,713	1,809	1,847
Other financial liabilities	2,878	1,943	1,565
	36,527	**37,051**	**40,803**
Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Financial payables	5,726	5,943	5,143
Finance lease liabilities	274	262	269
Other financial liabilities	267	380	241

	6,267	**6,585**	**5,653**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
GROSS FINANCIAL DEBT (A)	**42,794**	**43,636**	**46,456**
FINANCIAL ASSETS			
Non-current financial assets			
Securities other than investments	15	9	12
Financial receivables and other non-current financial assets	2,648	686	679
	2,663	**695**	**691**
Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale			
Securities other than investments	185	390	812
Financial receivables and other current financial assets	491	377	433
Cash and cash equivalents	5,416	6,473	7,219
	6,092	**7,240**	**8,464**
Financial assets classified under Discontinued operations/Non-current assets held for sale			
FINANCIAL ASSETS (B)	**8,755**	**7,935**	**9,155**
NET FINANCIAL DEBT (A-B)	**34,039**	**35,701**	**37,301**

122

The non-current portion of gross financial debt was 36,527 million at December 31, 2008 (37,051 million at December 31, 2007) and corresponds to 85% of the total gross financial debt.

The composition of financial debt, in addition to the effect of debt repayments which are higher than new fundings, is particularly impacted by the fair value measurement of hedging derivatives and relative underlying hedged items, with such measurement recognized in both financial liabilities and financial assets.

The financial risk management policies of the Telecom Italia Group are directed toward diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum composition for the fixed-rate and floating-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum blend of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at around 70% fixed-rate and 30% floating-rate.

In managing market risk, the Group adopts a guideline policy for debt management using derivative instruments and mainly uses IRS and CCIRS derivative financial instruments.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on financial instruments denominated in currencies other than the 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 volatility that was a distinguishing factor of the financial markets in the last quarter of 2008, especially in reference to the levels of interest and exchange rates, positively affected the fair value measurement of derivative positions hedging future variable contractual flows and, consequently, reduced the Group s net financial debt. This measurement does not entail an actual financial adjustment and its accounting effects are deferred in a specific Equity reserve, with an offsetting entry to the Net Financial Position of the Group.

v **CHANGE IN NET FINANCIAL DEBT DURING** 2008

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2008:

(*) Net of cash flow from assets disposed of.

Table of Contents

In particular:

- **Capital expenditures on an accrual basis** were 5,365 million in 2008 and remained basically unchanged compared to 2007. The breakdown is as follows:

	Year ended December 31, 2008		2007		Changes
	(millions of Euro, except percentages)				
		%		%	
Domestic	3,658	68.2	4,064	75.7	(406)
Brazil	1,348	25.1	865	16.1	483
European BroadBand	352	6.6	358	6.7	(6)
Media, Olivetti and other activities	54	1.0	93	1.7	(39)
Adjustments	*(47)*	*(0.9)*	*(10)*	*(0.2)*	*(37)*
Total	**5,365**	**100.0**	**5,370**	**100.0**	**(5)**

The percentage of capital expenditures to revenues went from 17.3% in 2007 to 17.8% in 2008.

The increase of 483 million in the Brazil Business Unit is due to the purchase of the mobile telephone licenses for operating 3G services. See Item 5.3.6 Results Of Operations Of Business Units For The Year Ended December 31, 2008 Compared With The Year Ended December 31, 2007 .

- **Financial investments and treasury shares buyback**

In 2008, **financial investments** made were only 6 million, of which 5 million was used for the Media Business Unit s purchase of a 9% stake in Air P TV Development Italy S.r.l. (now named DAHLIA TV S.r.l.) as part of the agreement for the disposal of the Pay-per-View business. In 2007, financial investments amounted to 635 million and mainly related to the acquisition of the AOL internet business in Germany.

The **treasury shares buyback** refers to the purchase of 25 million Telecom Italia ordinary shares in September 2008 to service the management incentive plan *Performance Share Granting 2008* .

The buyback was carried out through Mediobanca which operated with a mandate for the purchase of the shares on behalf of the Company in complete autonomy and independently of Telecom Italia and in accordance with applicable market rules and regulations and the relative instructions.

The buyback required a total outlay of 27 million, corresponding to an average price per share of 1.08451 (including agent fees).

- **Disposal of investments and other divestitures**

The disposal of investments and other divestitures amounted to 599 million in 2008. The amount mainly relates to the disposal of Liberty Surf group in August 2008 (744 million, including the deconsolidation of the net financial debt of the subsidiary sold), the sale of the Pay-per-View business segment in December 2008 by Telecom Italia Media (16 million), net of cash flows used during the period by the companies sold, as well as the reimbursement of capital and distribution of dividends by associates.

***

In the fourth quarter of 2008, net financial debt decreased by 1,731 million, from 35,770 million at September 30, 2008 to 34,039 million at December 31, 2008. The reduction was the result of positive operating factors and the exchange differences on the translation of financial statements in currencies other than the euro and the fair value measurement of derivatives.

***

The following should also be mentioned with respect to net financial debt:

- **Sale of receivables to factoring companies**

The sale of receivables to factoring companies finalized in 2008 led to a positive effect on net financial debt at December 31, 2008 of 794 million (755 million at December 31, 2007).

v **CHANGE IN NET FINANCIAL DEBT DURING 2007**

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2007:

(*) Net of cash flow from assets disposed of.

In particular:

- **Capital expenditures on an accrual basis** were 5,370 million in 2007 (4,877 million in 2006). The breakdown is as follows:

	Year ended December 31,				
	2007		2006		Changes
	(millions of Euro, except percentages)				
		%		%	
Domestic	4,064	75.7	3,894	79.8	170
Brazil	865	16.1	699	14.3	166
European BroadBand	358	6.7	214	4.4	144
Media, Olivetti and other activities	93	1.7	116	2.4	(23)
Adjustments	*(10)*	*(0.2)*	*(46)*	*(0.9)*	*36*
Total	**5,370**	**100.0**	**4,877**	**100.0**	**493**

The percentage of capital expenditures to revenues went from 15.7% in 2006 to 17.3% in 2007.

- **Financial investments** were 635 million in 2007 and were principally related to the acquisition of the AOL Internet businesses in Germany.

- **Disposal of investments and other divestitures** amounted to 1,276 million in 2007 and included the following transactions: sale of the entire investment held in Oger Telecom for 462 million; sale of the entire investment held in Capitalia for 74 million; sale of the entire investment held in Mediobanca for 236 million; sale of the entire investment held in Solpart Participações for 360 million; sale of the entire investment held in Brasil Telecom Participações for 48 million; sale of other non-current assets, reimbursements of capital and distribution of dividends by associates aggregating 96 million.

***

125

The following should also be mentioned with respect to net financial debt:

- **Sale of receivables to factoring companies**

The sale of receivables to factoring companies had a positive effect on net financial debt at December 31, 2007 of 755 million (1,499 million at December 31, 2006).

Gross Financial Debt

On a consolidated basis, at December 31, 2008, our gross financial debt amounted to 42,794 million (43,636 million at December 31, 2007) and included non-current financial liabilities (long-term debt) of 36,527 million (37,051 million at December 31, 2007) and current financial liabilities (short-term debt) of 6,267 million (6,585 million at December 31, 2007).

As of December 31, 2008 approximately 70% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Japanese Yen.

The following table sets out the currency composition of our gross financial debt:

	As of December 31, 2008		**As of December 31, 2007**	
	(millions of foreign currency)	**(millions of Euro)**	**(millions of foreign currency)**	**(millions of Euro)**
USD	13,898	9,986	12,805	8,699
GBP	1,780	1,869	1,783	2,431
BRL	2,408	740	1,946	746
JPY	54,918	435	31,922	193
EURO		29,764		31,567
		42,794		**43,636**

For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management in Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

- the Telecom Italia Euro Medium Term Note (**EMTN**) Program. The maximum amount permitted to be issued under the Program, including in multiple tranches and multiple currencies, is 15 billion (or the equivalent in other currencies);

- the **Form F-3 Registration Statement**, filed with the Securities and Exchange Commission on December 29, 2008 which allows for the issuances, by Telecom Italia S.p.A. s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by Telecom Italia S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;

- the **Olivetti Euro Medium Term Note Programme**, as updated and amended on June 8, 2001 and May 14, 2002, which allowed for the issuance of a total amount of 15 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities;

- the Old Telecom Italia Global Medium Term Note Program (**Global Note Program**), which allowed for the issuance of a total amount of U.S.$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

Telecom Italia issues new long-term debt only from the first two programs of the above list. The following table highlights the utilization of the above mentioned programs at the end of 2008.

		As of December 31, 2008	
		EMTN Programme (millions of Euro)	Form F-3 Registration Statement (millions of U.S.$)
Total amount of the program	**(A)**	**15,000.00**	**Indeterminate**
Notes and bonds issued		(11,555.5)	
Notes and bonds repaid		2,007.0	
Net utilization of the program	**(B)**	**(9,548.5)**	
Remaining available amount of the program	**(A+B)**	**5,451.5**	

Notes and bonds (including convertible bonds)

At December 31, 2008 our notes and bonds were 30,177 million (32,080 million at December 31, 2007). Their nominal repayment amount was 28,820 million, a reduction of 2,466 million compared to December 31, 2007 (31,286 million).

Changes in bonds during 2008 were as follows:

	Currency	Amount (millions)	
NEW ISSUES			**Issue date**
Telecom Italia Finance S.A., issue, guaranteed by Telecom Italia S.p.A., for euro 138.83 million, Euribor 3M + 1.3%, maturing 6/14/2010	Euro	138.83	6/12/2008
Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A, for USD 1 billion 6.999%, maturing 6/4/2018	USD	1,000	6/4/2008
Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A. for USD 1 billion 7.721%, maturing 6/4/2038	USD	1,000	6/4/2008
REPAYMENTS			**Repayment date**
Telecom Italia Finance S.A. 5.875%, issue guaranteed by Telecom Italia S.p.A.	Euro	1,659	1/24/2008
Telecom Italia S.p.A. Floating Rate Notes Euribor 3M+ 0.22%	Euro	750	6/9/2008
Telecom Italia Finance S.A. Euro 499,669,000 Floating Rate Extendable Notes, issue guaranteed by Telecom Italia S.p.A.	Euro	360.84	9/14/2008
Telecom Italia Capital S.A. USD 1,000,000,000, issue guaranteed by Telecom Italia S.p.A.	USD	1,000	11/15/2008
BUYBACKS			
Telecom Italia S.p.A., euro 850 million 5.25% maturing 2055	Euro	180	

Telecom Italia S.p.A., euro 750 million 4.75% maturing 2014	Euro	77
Telecom Italia Finance S.A., euro 1,050 million 7.75% maturing 2033	Euro	35
Telecom Italia Finance S.A., euro 1,500 million 5.15% maturing 2009	Euro	50
Telecom Italia Finance S.A., euro 2,210 million 6.575% maturing 2009	Euro	107

NOTES

Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group. These total 348 million (nominal amount) at December 31, 2008 and during 2008 increased by 51 million (297 million at December 31, 2007).

Telecom Italia Finance S.A. bonds (euro 2,000 million 7.25%, maturing on April 2011). The coupons were increased by 0.25% due to a change in the credit rating by S&P s in March 2008. The step-up was applied starting from the April 2008 coupon; the new rate is now equal to 7.50%. The coupon was not affected by the downgrade made by Fitch s Rating.

Telecom Italia Finance S.A. Euro 499,669,000 Guaranteed Floating Rate Extendable Notes due 2008. In accordance with the Terms and Conditions, the holders of the bonds for a nominal amount of 360,839,000 renounced the right to the possibility of extending the maturity date to 2010 and this amount was duly repaid on September 14, 2008. On June 12, 2008, bonds were issued for the residual amount and are denominated Telecom Italia Finance S.A. Euro 138,830,000 Guaranteed Floating Rate Extendable Notes due 2010 maturing on June 14, 2010.

127

Bond buybacks: during 2008, the Telecom Italia Group bought back bonds across the entire range of maturity dates in order to:

- give investors a further possibility of monetizing their position and increasing the security s level of liquidity at a time of financial market uncertainty;
- partially repay some debt securities before maturity, increasing the overall return of the Group s liquidity without taking any additional risks.

For further details about the outstanding notes and bonds please see also Note Financial liabilities (current and non-current) in Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Revolving Credit Facility and Term Loan

The composition and drawdown of the syndicated committed credit lines available at December 31, 2008, represented by the **Term Loan** of 1.5 billion expiring 2010 and the **Revolving Credit Facility** for a total of 8 billion expiring August 2014, are presented in the following table:

	December 31, 2008		December 31, 2007	
	Committed	Drawdown	Committed	Drawdown
	(billions of Euro)			
Term Loan maturity 2010	1.5	1.5	1.5	1.5
Revolving Credit Facility maturity 2014	8.0	1.5	8.0	1.5
Total	**9.5**	**3.0**	**9.5**	**3.0**

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

- under the Revolving Credit Facility, the bank has a commitment for 127 million of which 23.8 million has been disbursed;
- under the Term Loan, the bank has a commitment for 19.9 million, this amount has been fully disbursed.

With regard to the commitment by Lehman Brothers Bankhaus AG, the Telecom Italia Group has not received any communication from Lehman Brothers Bankhaus AG, or from its representatives or directors or Agent of the committed facilities which, at this time, entail changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc..

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities) is 7.79 years.

The Group s average cost, considered as the cost for the period calculated on an annual basis and derived from the ratio of debt-related expenses to average exposure, is equal to about 6%.

The maturities of financial liabilities in terms of both the carrying amount (including measurements based on fair value adjustments and amortized cost, included in accrued expenses) and the expected nominal repayment amount, as contractually agreed, are as follows:

Maturities of financial liabilities:

	Carrying amount	Nominal repayment amount
	(millions of Euro)	
Maturing by December 31, of the year:		
2009(*)	6,267	5,110
2010	5,361	5,214
2011	4,823	4,742
2012	3,553	3,533
2013	3,799	3,756
After 2013	18,991	17,863
Total gross financial debt	**42,794**	**40,218**

(*) Including the carrying amount and nominal repayment amount of current liabilities, respectively, of 812 million and 782 million.

Current financial assets and Liquidity margin

Current financial assets amounted to 6,092 million in 2008 (7,240 million at December 31, 2007). The available liquidity margin of the Telecom Italia Group, calculated as the sum of *Cash and cash equivalents* and *Securities other than investments,* totals 5,601 million at December 31, 2008 (6,863 million at December 31, 2007), which, together with unused committed credit lines of 6.5 billion, allows a broad coverage of the Group s repayment obligations over the next 18-24 months.

Notwithstanding highly volatile financial markets, the Telecom Italia Group was able to refinance certain of its debt during the early months of 2009 by issuing bonds with an aggregate principal amount of 2,000 million and signing a loan agreement with the EIB for 600 million.

Credit ratings

As of April 1, 2009 the Telecom Italia S.p.A. credit ratings are as follows:

- Moody s: Baa2 , stable outlook (rating confirmed on December 8, 2008);
- Standard and Poor s: BBB , stable outlook (rating confirmed on March 3, 2009);
- Fitch Ratings: BBB , stable outlook (downgraded from BBB+ on December 11, 2008).

For a discussion on financial instrument contractual clauses related to credit rating changes, please see the Note Financial liabilities (current and non-current) in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Treasury policies

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

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

- allocating liquidity where necessary;
- obtaining excess cash resources from the Group companies;
- guaranteeing an adequate level of liquidity compatible with individual needs;
- acting on behalf of its subsidiaries to negotiate bank lines;
- providing financial consulting services to its subsidiaries.

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

For a further discussion on funding and treasury policies, please see Note Financial Risks Management and Note Cash and Cash equivalents in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Off-Balance Sheet Arrangements

As of December 31, 2008, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

Purchase commitments of 283 million related mainly to DVB H contracts signed between Telecom Italia and the main domestic TV operators (in particular Mediaset group and Sky Italia) in order to provide TIM TV service (260 million).

Sale commitments for a total amount of 2 million.

The purchase and sale commitments above mentioned refer to commitments that do not fall within the normal operating cycle of the Group.

As of December 31, 2008, the Group has given guarantees of 212 million, net of 156 million of counter-guarantees received, and consisting mainly of guarantees provided by Telecom Italia on behalf of associated companies (31 million) and others for medium and long-term loans.

In addition, the 47.80% interest in Tiglio I has been pledged to the banks that financed the associate.

As of December 31, 2008 Telecom Italia has also issued support letters for a total of 138 million, on behalf of ETECSA.

For further details please see Note Contingent liabilities and assets, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Contractual Obligations and Commitments

The following tables aggregate our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future in terms of nominal amounts and carrying values in accordance with IFRS.

As of December 31, 2008 the **carrying amounts of payables** due under IFRS (including fair value adjustment and measurement at amortized cost) and the relating expiration dates were as follows:

	Amounts(*) due as of December 31,						
	2009	2010	2011	2012	2013	After 2013	Total
	(millions of Euro)						
Notes and bonds	4,497	2,976	4,250	3,246	2,777	12,431	30,177
Loans and other debts	684	2,176	397	173	906	5,482	9,818
Finance lease liabilities	274	209	176	134	116	1,078	1,987
Total non-current financial debt	**5,455**	**5,361**	**4,823**	**3,553**	**3,799**	**18,991**	**41,982**
Current financial liabilities	**812**						**812**
Total gross financial debt	**6,267**	**5,361**	**4,823**	**3,553**	**3,799**	**18,991**	**42,794**

(*) Financial commitments include accrued expenses and deferred income, of which 1 million is in non-current financial debt, 1,121 million in non-current financial debt maturing within 1 year and 29 million in other current financial liabilities.

As of December 31, 2008, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

	Amounts due as of December 31,						
	2009	2010	2011	2012	2013	After 2013	Total
	(millions of Euro)						
Notes and bonds	3,663	2,964	4,187	3,250	2,787	11,969	28,820
Loans and other debts	409	2,041	379	149	853	4,816	8,647
Finance lease liabilities	256	209	176	134	116	1,078	1,969
Total non-current financial debt	**4,328**	**5,214**	**4,742**	**3,533**	**3,756**	**17,863**	**39,436**
Current financial liabilities	**782**						**782**
Total gross financial debt	**5,110**	**5,214**	**4,742**	**3,533**	**3,756**	**17,863**	**40,218**

For further details please see also Note Derivatives and Note Other information, Operating leases of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

5.4.3 CAPITAL EXPENDITURES

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units on the basis of the organizational structure at December 31, 2008.

	Year ended December 31,		
	2008(1)	2007(1)	2006(1)
	(millions of Euro)		
Purchase of tangible assets:			
Domestic	2,169	2,467	2,302
Brazil	482	388	342
European BroadBand	190	219	147
Media, Olivetti	22	28	39
Other Operations and eliminations	(12)	15	18
Total purchase of tangible assets(2)	**2,851**	**3,117**	**2,848**
Purchase of intangible assets(3)	**2,514**	**2,253**	**2,029**
Total capital expenditures(4)	**5,365**	**5,370**	**4,877**

(1) Starting from January 1, 2008, the Liberty Surf group has been treated as a Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. All periods presented for comparison purposes have been restated.

(2) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(3) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(4) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2008, 2007 and 2006, cash flows from operating activities exceeded capital expenditures on an accrual basis. For further details please see 5.3.6 Results Of Operations Of Business Units For The Year Ended December 31, 2008 Compared With The Year Ended December 31, 2007 and 5.3.8 Results Of Operations Of Business Units For The Year Ended December 31, 2007 Compared With The Year Ended December 31, 2006 .

The capital expenditures planned for 2009, at Telecom Italia Group level, will be approximately 4.8 billion while in 2011 the capital expenditures will be approximately 13%-13.5% of revenues.

The breakdown by core markets is as follows:

- Domestic Business Unit: approximately 3.3 billion in 2009 (13%-13.5% on revenues in 2011); and

- Brazil Business Unit (TIM Brasil): approximately Reais 2.8 billion in 2009 (approximately 13.5% on revenues in 2011).

131

Table of Contents

The Telecom Italia Group expects to fulfill its future commitments for capital expenditures primarily through the use of cash generated from operations.

* * *

For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

5.5 RESEARCH, DEVELOPMENT AND INNOVATION

In addition to TILab, Telecom Italia Group s research and development activities are carried out by the Operational Units and businesses (Network, Market, Information Technology, Security) and within the Group s companies.

TILab is the department whose remit is the supervision of technological innovation for the Group, scouting for new technologies and engineering operations for services and network platforms. The work carried out by TILab is the outcome of a cooperation with the main manufacturers of telecommunications equipment and systems, and with centers of excellence in research at the most highly qualified national and international academic institutions. In 2008, 29 new collaborative projects were begun with as many universities, covering research into various types of technology, encryption algorithms, services concepts and new paradigms of communication.

Opportunities to generate competitive advantage and create market value for Telecom Italia Group have been pursued through the 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 2008, 39 new applications for patents were registered.

The principle activities carried out by TILab were:

- in the field of mobile phone access, solutions based on femtocell have been developed which represent an innovative way of providing radio access, based on an increased number of cells, greatly reduced in size. TILab, moreover, confirmed its role as a driver of technological innovation in mobile BroadBand due to experimentation with the High Speed Packet Access (**HSPA**) technology at the laboratories in Turin;
- in the field of widening access to BroadBand, the identification of solutions capable of supporting the development of optic fiber access under the various scenarios available in the coming years continued, with terminals in the customer s business premises, office or home;
- Innovations in the Home Network and Terminals for the always connected domestic BroadBand network have seen the development of solutions that share the different flows of multimedia content through technologies based on the main international standards;
- within the scope of services based on converging content and applications, the development of innovations for specific groups of clients has continued. In particular, the e-tourism solutions have been enhanced with an application that allows access to and visualization of the tourist portal in a dynamic way, based on the profile of the terminal used. Furthermore, the provision has been enriched with Web2.0 functionality, such as the generation and contextualized sharing of photos and videos;
-

in the field of video and multimedia services, the TIM SKY Mobile TV/Radio has been launched allowing customers to enjoy 10 SKY channels and 25 radio stations for 2G and 3G users, with the conversion of the radio/TV channels from ON AIR DVB broadcast on IP format to 3GPP on IP;

- the Group s Technological Plan for 2009-2011 has been drawn up, setting out the main innovations in prospect for the next three years;

- on the international level, TILab has pledged a substantial commitment to the task of standardization, by influencing the manufacturers road map. In 2008, on the initiative of Telecom Italia, the Energy Efficiency Inter Operator Collaboration Group was launched. This is an ad hoc working group formed by 18 of the principle global TLC Operators with the aim of maximizing energy efficiency in the telecommunications sector, interceding on standards and proposing actions to suppliers.

Finally, an outline agreement on development was jointly drawn up between the Telecom Italia Group and the Telefónica Group. The agreement provides for technical collaboration in carrying out specific research projects with Telefónica I+D, a Telefónica Group company involved in research and development. The subjects of the first projects are the following: Wireless Sensor Network Applications, Context Awareness/Ambient Intelligence Platforms & Services, Innovative Services and Applications Z-SIM Enabled, Connected Car, 3D Multimedia Technologies, Software Defined Radio, e-Tourism, and the observation and analysis of the main trends in technological innovation.

The research and development activities carried out by the Operational Units and businesses of Telecom Italia have been directed towards developments that have been carried out internally, or externally by outside suppliers in order to create:

- software products dedicated to systems for managing both marketing offers and activities on behalf of customers (Business Support Systems) and for managing the functioning of networks (Operational Support Systems), Security and other IT services;
- testing; specifications for tenders; network architecture studies.

The main activities were:

- the development of a new Customer Centric platform CRM Business , for the commercial management of the clients SOHO, SME, Enterprise and Top;
- the evolution of the digital platform in support of business and the implementation of new services for the clients Consumer and Business, & Top. In particular, work has been aimed at supporting the following offers: Family offer; Friend & Family; MTV (*main functionalities*); IPTV; Alice CASA (*naked*); Alice Total Security; Alice DATA KIT (*up-selling fixed-mobile*); TIM Affare Fatto al Lavoro; Office On Hand; Alice Affare Fatto su VoIP; Alice Business (naked).

For additional details, reference should be made to the Note Other information , of the Notes to the Consolidated Financial Statements included elsewhere herein.

5.6 CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The foregoing discussion in Item 5. Operating and Financial Review and Prospects and the following discussion under Item 11. Quantitative and Qualitative Disclosures About Market Risks contain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will will continue, should, seeks or anticipates or similar expressions or the negative thereof or other comparable terminology, or by th forward-looking nature of discussions of strategy, plans or intentions.

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

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

- our ability to successfully implement our strategy over the 2009-2011 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.

Table of Contents

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 DIRECTORS

On April 14, 2008 the Shareholders Meeting of the Company elected a new Board of Directors of Telecom Italia. The Shareholders Meeting established the number of Directors at 15 and their term of office would be for three years, that is up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

On April 15, 2008, the Board of Directors elected Gabriele Galateri and Franco Bernabè, respectively, as Chairman of the Board of Directors and Chief Executive Officer.

On February 27, 2009 Gianni Mion resigned from office and the Board appointed Stefano Cao in his place, effective up to the Shareholders Meeting. The Shareholders Meeting on April 8, 2009 confirmed his appointment, with the same term of office as the term of the other directors and therefore up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

Consequently, at April 1, 2009 the Board of Directors of Telecom Italia was composed as follows:

Name	Age