



Telecom Italia S.p.A.  
2011 Form 20-F

**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

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2011

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)

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(Address of principal executive offices)

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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
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American Depositary Shares, each representing 10 Ordinary Shares of 0.55 euros  
par value each (the "Ordinary Share ADSs")

The New York Stock Exchange

Ordinary Shares of 0.55 euros par value each (the "Ordinary Shares")

The New York Stock Exchange\*

American Depositary Shares, each representing 10 Savings Shares of 0.55 euros  
par value each (the "Savings Share ADSs")

The New York Stock Exchange

Savings Shares of 0.55 euros par value each (the "Savings Shares")

The New York Stock Exchange\*

Securities registered or to be registered pursuant to Section 12(g) of the Act:  
None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock  
as of the close of the period covered by the annual report.

Ordinary Shares 13,254,622,987

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 ☒ 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 ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 ☒ 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 ☒ 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 ☒

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



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## 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”).

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, 2011 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

### **Cautionary Statement for Purposes of the “Safe Harbor” Provisions of the United States Private Securities Litigation Reform Act of 1995.**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This Annual Report contains certain forward-looking statements.

Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as “believes,” “may,” “is expected to,” “will,” “will continue,” “should,” “seeks” or “anticipates” or similar expressions or the negative thereof or 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 in our core markets, including regulatory developments.

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 2012-2014 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in our markets, 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 increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning a proprietary TLC network infrastructure);
- the continuing effects of the global economic crisis in the principal markets in which we operate, including recent changes to allowable charges for data and voice roaming;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as procurement, IT, technology, research and development;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate, including recent changes to allowable charges for data and voice roaming;
- 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 and Argentina), 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 and Argentina);
- the amount and timing of any future impairment charges for our authorizations, 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.

## KEY DEFINITIONS

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

<b>EU</b>	means the European Union.
<b>IASB</b>	means the International Accounting Standards Board.
<b>IFRS</b>	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards ("IAS") and all Interpretations issued by the IFRS Interpretations committee (formerly called International Financial Reporting Interpretations Committee—IFRIC), comprising those previously issued by the Standing Interpretations Committee ("SIC").
<b>Ordinary Shares</b>	means the Ordinary Shares, 0.55 euros par value each, of Telecom Italia.
<b>Parent, Telecom Italia and Company</b>	means Telecom Italia S.p.A..
<b>Savings Shares</b>	means the Savings Shares, 0.55 euros par value each, of Telecom Italia.
<b>Telecom Italia Group and Group</b>	means the Company and its consolidated subsidiaries.
<b>Telecom Italia Media</b>	Telecom Italia Media is the Telecom Italia Group's subsidiary operating in the Media business.

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, we use the measure "Accesses" when considering certain statistical and other data for our domestic Italian business. "Access" refers to a connection to any of the telecommunications services offered by the Group in Italy. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses attributable to all companies over which we exercise control. The following are the main categories of accesses:

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



Item 1. Identity of Directors, Senior Management and Advisers / Item 2. Offer Statistics and Expected Timetable	
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## 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	Risk Factors
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## Item 3. KEY INFORMATION

### 3.1 RISK FACTORS

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

#### RISKS RELATED TO THE TELECOM ITALIA GROUP

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

On February 24, 2012, we presented our updated 2012–2014 Plan, which confirms the following strategic priorities and objectives for the Telecom Italia Group over the next three years:

- reinforcement of cash flow generation via: repositioning in markets with the best growth prospects, setting the company back on a path to growth; continued improvement in operational efficiency, especially in our Italian domestic market; and a demand-driven approach to investments;
- steady and persistent deleveraging to reduce the Group's net financial debt, coupled with sustainable shareholder remuneration.

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

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

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

Item 3. Key Information	Risk Factors
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***The global economic crisis adversely affected our business in recent years and continuing global economic weakness, associated with the Eurozone sovereign debt crisis, could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.***

The financial contagion which spread to Italy from the Eurozone debt crisis is leading to a new downturn in the Italian economy, after the slight recovery in 2010 and 2011 that followed the strong GDP decrease associated with the global economic crisis which began in late 2008. The Italian economy faces fiscal tightening (mix of spending cuts and tax increases), aimed at reinforcing the multi-year budget deficit reduction plan which is trying to balance the public sector finances by 2013. This fiscal policy should guarantee structural adjustments and sustainability in the long term but is expected to impede growth in the near term. Moreover, tighter domestic credit conditions, deriving from the mounting Eurozone banking sector problems, are creating a difficult investment climate and adversely affecting consumer confidence, adding further reasons for lower economic growth estimates for the coming years.

Telecommunications is believed to be less affected by negative economic trends than other industries, since telecommunications services are seen as high productivity tools in the business segment, and they are also becoming an increasingly important element in household expenditure patterns. However, recessionary conditions have weighed, and may continue to weigh, heavily on the development prospects of our domestic market. In particular, the economic weakness may cause more cautious telecommunications spending in the business segment, following on from the overall contraction in expenditure (capital expenditures and operating costs) in industry sectors, while, on the consumer side, a drop of consumer spending might entail a further sharpening of the downward pressure on telecommunications services' prices and a reduction in the demand for our products and services.

Outside of Italy and Europe, it is expected that the Argentine economy will continue growing in 2012, although at a slower pace than in prior years, when strong economic expansion was experienced. Private consumption is expected to remain the main driver of the economy; however the effects of reduced agricultural output, increasing external restraints and a more conservative fiscal approach could lead the economy to a somewhat lower but more balanced growth. Under these circumstances, inflation will continue to be a challenge. Finally, developments in the global economy will be a key factor to the economic performance, where commodities prices and the development of global financial markets are the main concerns.

Brazil is characterized by expected stable growth, supported by high investment levels (foreign and domestic), increased consumer spending, decreasing inflation and a stable exchange rate. The overall economic equilibrium allows the Central Bank to cut rates as a precautionary measure against contagion from the possible global recession. At the moment, although less buoyant than in the past, the macroeconomic condition appears sufficiently stable.

The continuing global economic weakness could further adversely affect our businesses in our principal markets (Italy, Brazil and Argentina) and therefore may have a negative impact on our operating results and financial condition.

*The continuing weakness in the global economy, in particular in our domestic market, creates significant uncertainty and may adversely impact consumer spending, including on telecommunications 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 can change the expectations of the Group's ability to repay its debt and the inability to reduce our debt could have a material adverse effect on our business. Continuing volatility in the international credit markets may limit our ability to refinance our financial debt.***

Our gross financial debt was 41,951 million euros at December 31, 2011 compared with 41,230 million euros at December 31, 2010 and our net financial debt was 30,819 million euros at December 31, 2011 compared with 32,087 million euros as of December 31, 2010.

Due to the competitive environment and current economic conditions, there could be deterioration in our income statement and statement of financial position measures used by investors and rating agencies in determining our

Item 3. Key Information	Risk Factors
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credit quality. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody's and Standard & Poor's, which base their ratings on our ability to repay our debt.

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

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

The management and further development of our business will require us to make further capital and other 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.

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

We are subject to numerous risks relating to legal, competition and regulatory proceedings in which we are currently a party or which could develop in the future. We are also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, competition and regulatory proceedings and investigations in which we are, or may become, involved (or settlements thereof) may have a material adverse effect on our results of operations and/or financial condition. Furthermore, our involvement in such proceedings and investigations may adversely affect our reputation. For information concerning the most significant legal, competition and regulatory proceedings and investigations in which we are involved, see "Note—Contingent liabilities, other information, commitments and guarantees" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Italian Collective Action for Damages for the Protection of Consumers Law (the "Collective Action Law") was passed in December 2007 and, after undergoing substantial modifications by the Italian Parliament, entered into force on January 1, 2010. The law allows collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action Law. Therefore there is a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers, although no such actions have yet been brought against Telecom Italia.

***Operational risks could adversely affect our reputation and our profitability.***

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

We have risk management practices designed to detect, manage and monitor at top level the evolution of these operational risks, and for this purpose we have recently established a group risk management committee.

However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that we face and such failures could have a material adverse effect on our results of operations and could harm our reputation.

Item 3. Key Information	Risk Factors
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***Risks associated with Telecom Italia's ownership chain.***

Telco S.p.A. ("**Telco**")—a company in which interests are held by the Generali group (30.58%), Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), and Telefónica S.A. ("**Telefónica**") (46.18%)—is Telecom Italia's largest shareholder, holding an interest of approximately 22.40% of the voting rights.

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

The 2012 Shareholders' Agreement defines, inter alia, the criteria for drawing up the slate of candidates for the appointment of the Board of Directors of Telecom Italia:

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

The 2012 Shareholders' Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently.

Although Telco does not own a controlling interest in Telecom Italia's voting shares, Telco may exert as a matter of fact a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors. In the shareholders' meeting held on April 12, 2011, 12 out of 15 Board members were elected from a list proposed by Telco, while the remaining 3 Directors were elected from a list proposed by a group of asset management companies and international institutional investors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia's other ordinary shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco.

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

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

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

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

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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 arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury's special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on May 20, 2010, the Italian Government amended the criteria under which it may exercise such special powers. In any event, the ruling by the European Court of Justice does not have any immediate or direct impact on Telecom Italia's bylaws.

On March 15, 2012 the Legislative Decree no. 21/2012 was published, containing "Regulations relating to the special powers on share ownership in the sectors of defence and national security, and regarding activities of strategic importance in the energy, transport and communication sectors". The regulations provide that, at the moment the implementing decrees come into force identifying "*the networks and systems, goods and relationships of strategic importance for the communications [...] sector*", the statutory clauses on special powers will cease to have effect to be replaced by these regulations. In brief, the new regulations will provide:

- a power granted to the Italian Government to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified as above in the Prime Ministerial decree referred to above. The right to purchase will in any case be permitted solely on condition of reciprocity in the purchaser's home jurisdiction;
- a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of said strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee.

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

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

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

Our 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 could have a material adverse effect on our business, financial condition and results of operations.

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## RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

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

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

Continuing uncertainty about current global economic conditions poses a significant risk as consumers and businesses postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for our products and services. This is particularly the case in our domestic market where budget constraints and the need to reduce overall levels of indebtedness in response to the European sovereign debt crisis is expected to impede growth in the Italian economy in the short to medium term. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or the timing of purchases of our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

We may also be adversely affected by political developments in the 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 in their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments. In particular, in recent years the Argentine government has taken several actions to re-nationalize concessions and public services contracts that were privatized in the 1990's, such as Aguas Argentinas S.A., Aerolíneas Argentina S.A. and recently YPF S.A. In April 2012, Decree 530/12 from the National Executive Branch established the intervention in YPF S.A., Argentina's largest company and the principal oil and gas producer. In addition, a bill was presented to the Argentine Congress declaring the public interest in the exploitation, production, transport and commercialization of oil and gas and declaring the expropriation of 51% of the share capital of YPF S.A. Finally, such bill was approved by the Argentine congress in May 2012. There is no certainty about the consequences the expropriation of YPF S.A. will have on Argentina's economy, on the confidence of local and international investors, on the business environment in Argentina or what response it will cause from other countries or international entities. We cannot provide any assurance that similar actions of the Argentine government will not be extended to other companies and/or other sectors in the future.

***Because we operate in a heavily regulated industry, 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 regulatory requirements in Italy and its international operations are subject to regulation in their host countries.

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

As a member of the European Union (the "EU"), Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The review of the EU common regulatory framework was approved at the end of 2009 and is expected to be implemented in Italy by the end of June 2012.

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



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

To date, the AGCom regulatory approach is focused on wholesale obligations while relaxing retail regulations.

The second round of market analyses was concluded during 2010 and AGCom started the third round of market analyses with the review of the mobile termination market in order to define the relevant market, identifying SMP Operators and setting regulatory obligations on SMP Operators. The final decision was published in November 2011 and established the new glide path for Mobile Termination Rates (MTRs) for the period from July 1, 2012 to July 1, 2013. The market analysis on the SMS termination rates is still in progress.

The regulatory framework of the Next Generation Access Network (“**NGAN**”) is not yet completely defined. With Decision 1/12/CONS dated January 18, 2012, AGCom published its final decision which granted Telecom Italia’s main request regarding the lack of a precise obligation to provide fibre unbundling over Gigabit Passive Optical Network (“**GPON**”) architectures, despite the strong pressure from Alternative Network Operators (“**ANOs**”) to require that Telecom Italia do so. As an alternative to fibre unbundling, the Authority confirmed the obligation to provide the “*end to end*” service, although significantly mitigating its scale compared to the draft decision originally submitted for public consultation. In fact the Authority introduced a “fairness and proportionality” principle for the building blocks demands by ANOs. Such a principle shall be implemented according to the NGAN investment plans published by Telecom Italia. In February 2012, AGCom opened three proceedings for the completion of the NGAN rules aimed at introducing: 1) a cost model for the pricing of passive and active wholesale services and the definition of the competitive areas for the geographic price differentiation of bitstream services; 2) the prospective enforcement of symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segments; 3) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fiber to the Cabinet -Very High- Speed Digital Subscriber Line (“**FTTCab-VDSL**”) accesses. As Next Generation Access will require significant investments, the regulatory approach regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on the Group’s cash flows and financial condition.

On January 19, 2011, with respect to the annual contribution to the AGCom, AGCom commenced an audit of the Company’s compliance with the requirements relating to the payments for 2006, 2007, 2008, 2009 and 2010. The AGCom audit on the annual contribution to the Italian NRA is part of a general audit of all companies in the industry. AGCom released its findings on March 1, 2011, holding that Telecom Italia did not pay its entire contribution in the 2006-2010 period. Telecom Italia was therefore obliged by AGCom to pay an amount equal to 26.6 million euros. Telecom Italia appealed this decision with the Lazio Regional Administrative Court which suspended the terms of the payment until the ruling of the proceeding. The II Section of the Lazio Regional Administrative Court suspended the above mentioned ruling and referred to the EU Court of Justice a preliminary question, i.e. the assessment of AGCom’s national financing system consistency with the principles deriving from the EU sectorial Directives.

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

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

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



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***We operate under authorizations granted by government authorities.***

Many of our activities require authorizations from governmental authorities. These authorizations specify the types of services permitted to be offered by the operating company holding such authorization. The continued existence and terms of our authorizations are subject to review by regulatory authorities and to interpretation, modification or termination by these authorities. Although authorization renewal is not usually guaranteed, most authorizations do address the renewal process and terms. Authorizations as well as their renewal terms and conditions, however, may be affected by political and regulatory factors and therefore it is not always guaranteed that the renewal process will be completed successfully.

Many of these authorizations are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing authorizations typically require us to satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the authorization 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 reduce our core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on our results of operations and financial condition.***

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. The use of the single European currency and the liberalization of the Italian telecommunications 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 and for broadband services.

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. In addition, some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which "originated" from fixed line operators.

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

Competition in our principal lines of business could lead to:

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

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

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

Telecommunications markets maturity (particularly in our core Italian market) and the rapidly changing competitive landscape (for example, the rise of global platform/ecosystems) have resulted in a continuous erosion in traditional service revenues for telecommunications operators.

In this context, our strategy has led to integration of our core offering portfolio with new services outside traditional telecommunications domains (eg. Cloud Services, Digital Media, M2M services), which are able to generate new revenue streams and at the same time stimulate increased usage of our fixed and wireless networks.

A deep knowledge of customers' needs and preferences, the ability to respond rapidly to their changes and a thorough understanding of industry verticals are particularly important for exploiting such opportunities.

Failing to exploit these business opportunities and to identify an appropriate role in the relative ecosystems may negatively affect our revenue generation.

***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 prove to be commercially unsuccessful. Moreover, Telecom Italia may not receive the necessary authorizations to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavorable regulation regarding the usage of these technologies. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

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

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

In recent years, mobile communications markets have been approaching maturity levels in our domestic market in the voice services segment, although mobile broadband business continues to grow.

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

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

In addition, as our core domestic Italian market has become increasingly saturated there is a growing focus on customer retention. Such focus could result in increased expenses to retain customer loyalty or, if we are unable to satisfactorily offer better value to our customers, our market share and revenues could decline.

If the mobile telecommunications markets in which we operate perform worse than expected, or if we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed.

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

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

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

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

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

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

Moreover as the use of cloud IT services matures and their adoption grows, we may take advantage of the new cloud opportunities especially in the Business customer segment providing a full range of services (from "core" Infrastructure to Software as a Service through partners' ecosystem) integrated with a wide range of connectivity options and end-to-end SLAs.

We expect to experience increasing competition in this market as additional competitors (mainly Telco operators through acquisition and partnership with IT operators) also enter this market.

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

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

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

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

***Fluctuations in currency exchange and interest rates may adversely affect Telecom Italia'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.

Item 3. Key Information	Exchange Rates
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We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular the Brazilian Real and Argentine Peso) may adversely affect our consolidated results. A rise in the value of the Euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

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

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

### 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.\$ 1,2973, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the “**Noon Buying Rate**”) on December 31, 2011.

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 2007 to 2011 and for the beginning of 2012 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per €1.00.

<u>Calendar Period</u>	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>At Period end</u>
2007 .....	1.4862	1.2904	1.3705	1.4603
2008 .....	1.6010	1.2446	1.4725	1.3919
2009 .....	1.5100	1.2547	1.3936	1.4332
2010 .....	1.4536	1.1959	1.3262	1.3269
2011 .....	1.4875	1.2926	1.3931	1.2973
2012 (through May 4, 2012) .....	<u>1.3463</u>	<u>1.2682</u>	<u>1.3132</u>	<u>1.3091</u>
<u>Monthly Rates</u>	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>At Period end</u>
November 2011 .....	1.3803	1.3244	1.3558	1.3453
December 2011 .....	1.3487	1.2926	1.3155	1.2973
January 2012 .....	1.3192	1.2682	1.2910	1.3053
February 2012 .....	1.3463	1.3087	1.3238	1.3359
March 2012 .....	1.3336	1.3025	1.3208	1.3334
April 2012 .....	1.3337	1.3064	1.3160	1.3229
May 2012 (through May 4, 2012) .....	<u>1.3226</u>	<u>1.3091</u>	<u>1.3155</u>	<u>1.3091</u>

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

Item 3. Key Information	Selected Financial And Statistical Information
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The Ordinary Shares, par value 0.55 euros (the “**Ordinary Shares**”) and Savings Shares, par value 0.55 euros (the “**Savings Shares**”) of Telecom Italia trade on *Mercato Telematico Azionario* (“**Telematico**”), managed by Borsa Italiana S.p.A. (“**Borsa Italiana**”) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares (“**Ordinary Share ADSs**”) and the Savings Share American Depositary Shares (“**Savings Share ADSs**”), on the New York Stock Exchange (“**NYSE**”). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See “Item 10. Additional Information—10.5 Description of American Depositary Receipts”.

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

### 3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2011, 2010, 2009, 2008 and 2007, which have been extracted or derived, with the exception of amounts presented in U.S. dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by Reconta Ernst & Young S.p.A. with respect to 2007, 2008 and 2009. 2010 and 2011 have been audited by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young S.p.A. as part of the normal required rotation of auditors.

In 2011, the Group applied the accounting policies on a basis consistent with the previous year and did not elect the early adoption of any IFRS.

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

Item 3. Key Information	Selected Financial And Statistical Information					
	Year ended December 31,					
	2011 (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	2011	2010	2009	2008	2007
<b>Consolidated Income Statement Data:</b>						
Revenues .....	38,863	29,957	27,571	26,894	28,746	29,554
Operating profit (loss) .....	(782)	(603)	5,818	5,493	5,437	5,738
Profit (loss) before tax from continuing operations .....	(3,404)	(2,624)	4,132	3,339	2,894	4,120
Profit (loss) from continuing operations .....	(5,536)	(4,267)	3,582	2,218	2,217	2,459
Profit (loss) from Discontinued operations/Non-current assets held for sale .....	(17)	(13)	(7)	(622)	(39)	(99)
Profit (loss) for the year .....	(5,552)	(4,280)	3,575	1,596	2,178	2,360
• Profit (loss) attributable to owners of the Parent(2) .....	(6,131)	(4,726)	3,121	1,581	2,177	2,353
Capital expenditures .....	7,907	6,095	4,583	4,543	5,040	5,031
<b>Financial Ratios:</b>						
• Operating profit (loss)/Revenues (ROS)(%) .....	—	—	21.1%	20.4%	18.9%	19.4%
• Ratio of earnings to fixed charges(3) .....	(0.23)	(0.23)	2.84	2.51	2.21	2.67
<b>Employees, average number in the Group, including personnel with temporary work contracts:</b>						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number) .....	78,369	78,369	70,150	69,964	73,508	75,735
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number) .....	—	—	—	2,168	3,277	3,893
<b>Basic and Diluted earnings per Share (EPS)(4):</b>						
• Ordinary Share .....	(0.31)	(0.24)	0.16	0.08	0.11	0.12
• Savings Share .....	(0.31)	(0.24)	0.17	0.09	0.12	0.13
Of which:						
— From continuing operations:						
• Ordinary Share .....	(0.31)	(0.24)	0.16	0.11	0.11	0.12
• Savings Share .....	(0.31)	(0.24)	0.17	0.12	0.12	0.13
— From Discontinued operations/Non-current assets held for sale:						
• Ordinary Share .....	—	—	—	(0.03)	—	—
• Savings Share .....	—	—	—	(0.03)	—	—
<b>Dividends:</b>						
• per Ordinary Share .....	0.056	0.043(5)	0.058	0.0500	0.0500	0.0800
• per Savings Share .....	0.070	0.054(5)	0.069	0.0610	0.0610	0.0910

Item 3. Key Information	Selected Financial And Statistical Information
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	As of December 31,					
	2011 (millions of U.S. dollars, except employees)(1)	2011	2010	2009	2008	2007
(millions of euros, except employees)						
<b>Consolidated Statement of Financial Position Data:</b>						
<b>Total Assets</b> .....	<b>108,790</b>	<b>83,859</b>	<b>89,040</b>	<b>86,267</b>	<b>86,223</b>	<b>88,593</b>
<b>Equity:</b>						
• Equity attributable to owners of the Parent ...	29,567	22,791	28,819	25,952	25,598	25,431
• Non-controlling interests .....	5,064	3,904	3,736	1,168	730	1,063
<b>Total Equity</b> .....	<b>34,631</b>	<b>26,695</b>	<b>32,555</b>	<b>27,120</b>	<b>26,328</b>	<b>26,494</b>
<b>Total liabilities</b> .....	<b>74,159</b>	<b>57,164</b>	<b>56,485</b>	<b>59,147</b>	<b>59,895</b>	<b>62,099</b>
<b>Total equity and liabilities</b> .....	<b>108,790</b>	<b>83,859</b>	<b>89,040</b>	<b>86,267</b>	<b>86,223</b>	<b>88,593</b>
<b>Share capital(6)</b> .....	<b>13,757</b>	<b>10,604</b>	<b>10,600</b>	<b>10,585</b>	<b>10,591</b>	<b>10,605</b>
<b>Net Financial Debt(7)</b> .....	<b>39,981</b>	<b>30,819</b>	<b>32,087</b>	<b>34,747</b>	<b>34,039</b>	<b>35,701</b>
<b>Employees, number in the Group at year-end, including personnel with temporary work contracts:</b>						
• Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end) .....	84,154	84,154	84,200	71,384	75,320	79,238
• Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end) .....	—	—	—	2,205	2,505	4,191

	As of December 31,				
	2011	2010	2009	2008	2007
(thousands)					
<b>Statistical Data:</b>					
<b>Domestic (Italy) Business Unit</b>					
Fixed-line network connections .....	16,745	17,609	18,525	20,031	22,124
Physical accesses (Consumer and Business) .....	14,652	15,351	16,097	17,352	19,221
Broadband accesses .....	9,089	9,058	8,741	8,134	7,590
<i>Of which retail broadband accesses</i> .....	<i>7,125</i>	<i>7,175</i>	<i>7,000</i>	<i>6,754</i>	<i>6,427</i>
Mobile lines .....	32,227	31,018	30,856	34,797(8)	36,331(8)
<b>Brazil Business Unit</b>					
Mobile lines .....	64,070	51,015	41,102	36,402	31,254
<b>Argentina Business Unit</b>					
Fixed-line network connections .....	4,141	4,107	4,060	4,010	3,918
Broadband accesses .....	1,550	1,380	1,214	1,032	768
Mobile lines .....	20,342	18,212	16,281	14,390	12,292

(1) For the convenience of the reader, Euro amounts for 2011 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2011, of €1.00 = 1,2973 U.S.\$.

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

Item 3. Key Information	Selected Financial And Statistical Information
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(3) Due to the loss in 2011, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 2,585 million euros to achieve a coverage of 1:1. For purposes of calculating the ratio of "earnings to fixed charges":

- "Earnings" is calculated by adding:
  - profit (loss) before tax from continuing operations;
  - "fixed charges" (as defined below);
  - amortization of capitalized interest and debt issue discounts or premiums;
  - dividends from associates and joint ventures accounted for using the equity method; and
  - share of losses of associates and joint ventures accounted for using the equity method and then subtracting:
    - capitalized interest for the applicable period; and
    - share of earnings of associates and joint ventures accounted for using the equity method.
- "Fixed charges" is calculated by adding:
  - interest expenses (both expensed and capitalized);
  - issue costs and any original debt issue discounts or premiums; and
  - an estimate of the interest within rental expense for operating leases.

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

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

- Ordinary Shares was 13,264,375,078 for the year ended December 31, 2011, 13,239,883,276 for the year ended December 31, 2010, 13,220,792,908 for the year ended December 31, 2009, 13,246,643,947 for the year ended December 31, 2008 and 13,254,934,303 for the year ended December 31, 2007;
- Savings Shares was 6,026,120,661 for the years ended December 31, 2011, 2010, 2009, 2008 and 2007.

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

- (5) Telecom Italia's dividend coupons for the year ended December 31, 2011, will be clipped on May 21, 2012, and will be payable from May 24, 2012.
- (6) Share capital represents share capital issued net of the par value of treasury shares.
- (7) Net Financial Debt is a "Non-GAAP Financial Measure" as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see "Item 5. Operating and Financial Review and Prospects—5.2 Results of Operations for the Three Years Ended December 31, 2011—5.2.3 Non-GAAP Financial Measures".
- (8) Please see "Item 4. Information on the Telecom Italia Group—4.1. Business—4.1.5. Recent Developments During 2012".



Item 3. Key Information	Dividends
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### 3.4 DIVIDENDS

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

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

Year ended December 31,	Dividends on Ordinary Shares			Dividends on Savings Shares		
	Euros per Share	U.S. dollars per Share(1)	(millions of euros)	Euros per Share	U.S. dollars per Share(1)	(millions of euros)
2007 .....	0.0800	0.1253	1,070.36	0.0910	0.1426	548.38
2008 .....	0.0500	0.0652	667.16	0.0610	0.0796	367.59
2009 .....	0.0500	0.0619	667.16	0.0610	0.0755	367.59
2010 .....	0.0580	0.0846	775.48	0.0690	0.1006	415.80
2011(2) .....	0.0430	0.05629	575.30	0.0540	0.07069	325.41

(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, 2011 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on May 4, 2012.

(2) Subject to approval at the Annual Shareholders' Meeting to be held on May 15, 2012. 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, 2011 will be clipped on May 21, 2012, and will be payable from May 24, 2012.

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

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

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

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

Item 3. Key Information	Dividends
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Dividends payable on the Company's Ordinary Shares and Savings Shares may be subject to deduction of Italian withholding tax. See "Item 10. Additional Information—10.6 Taxation". Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See "Item 10. Additional Information—10.2 Exchange Controls and Other Limitations Affecting Security Holders".

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

The Depositary, in accordance with 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	Business
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## Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

### 4.1 BUSINESS

#### 4.1.1 BACKGROUND

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

Our Depository 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 October 25, 2007, Assicurazioni Generali S.p.A. ("**Generali**"), Sintonia S.A. ("**Sintonia**"), Intesa Sanpaolo S.p.A. ("**Intesa Sanpaolo**"), Mediobanca S.p.A. ("**Mediobanca**") and Telefónica S.A. ("**Telefónica**"), through the wholly owned vehicle Telco S.p.A. ("**Telco**"), completed the purchase of the entire share capital of Olimpia S.p.A., which held approximately 18% of the share capital and exercised control over Telecom Italia, from Pirelli & C. S.p.A. and Sintonia S.p.A.

5.6% of the ordinary share capital of Telecom Italia was contributed on the same date by Mediobanca S.p.A. and companies of the Generali group to Telco. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia's ordinary share capital.

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

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%.

On December 22, 2009 Telco and Sintonia executed a purchase and sale agreement pursuant to which Sintonia acquired from Telco shares representing approximately 2.06% of Telecom Italia's share capital and Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia's Telco shares and Sintonia left the shareholder group which controls Telco.

On February 29, 2012, Telefónica, Intesa Sanpaolo, Mediobanca and Generali entered into a renewal agreement (the "**2012 Shareholders Agreement**") in which they agreed to enter into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original Shareholders' Agreement dated as of April 28, 2007 as it had been subsequently amended and supplemented.

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

#### 4.1.2 DEVELOPMENT

We updated our Strategic Plan for 2012-2014 in a presentation to the financial markets on February 24, 2012. The 2012-2014 Strategic Plan confirms our strategic priorities and objectives for the next three years, which include:

- reinforcement of free cash flow generation via:
  - focus on strategic markets—Italy, Brazil and Argentina—with the goal of stabilizing consolidated revenues through the contribution from Latin America in which we have strengthened our presence;
- constant and progressive reduction of the Group's net financial debt.

Moreover the Group confirms its intention to generate sustainable shareholder remuneration.

For more details, please see "4.1.7 Updated Strategy".

#### 4.1.3 BUSINESS

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

Item 4. Information On The Telecom Italia Group	Business
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The Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

The operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic—Italy, Brazil and Argentina) and according to the specific businesses for the other segments.

On October 31, 2011, we acquired a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A., both telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. The acquisitions were carried out through the subsidiary Tim Celular S.A.—Brazil Business Unit.

On July 27, 2011, the 4G Holding group entered the scope of consolidation (in the Domestic Business Unit) after the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l.. The acquisition of 4G Holding, with its approximate 200 points-of-sale located in the most important shopping malls in Italy, will enable Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment and broaden its nationwide presence.

On October 13, 2010, Sofora Telecomunicaciones S.A. ("**Sofora**")—the holding company which controls Telecom Argentina—entered into the scope of consolidation following the increase, from 50% to 58%, in the stake held by the Telecom Italia Group in the share capital of Sofora. In 2011, further shares were acquired which increased the economic stake in the Telecom Argentina group from 16.2% as of December 31, 2010 to 22.7% as of December 31, 2011.

For further details please see "Item 5. Operating and Financial Review and Prospects—5.2 Results of Operations for the Three Years Ended December 31, 2011—5.2.2. Reorganization of Business" and "Note 3—Business Combinations" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Following is a summary description of the Telecom Italia group's principal geographical business areas.

### ***Domestic Business Area***

Telecom Italia operates as the consolidated market leader in Italy in providing telephone and data services on fixed-line and mobile networks for final retail voice customers and other wholesale operators.

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

At December 31, 2011 the Telecom Italia Group had approximately 14.7 million physical accesses (consumer and business) in Italy, a decrease of 0.7 million compared to December 31, 2010. The Wholesale customer portfolio in Italy reached approximately 7.1 million accesses for telephone services at December 31, 2011, an increase of approximately 0.3 million compared to December 31, 2010.

The broadband portfolio in Italy reached 9.1 million accesses at December 31, 2011 (consisting of approximately 7.1 million retail accesses and 2.0 million wholesale accesses), stable compared to December 31, 2010 (a market share of 53%).

In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines at December 31, 2011 in Italy, an increase of 1.2 million mobile telephone lines compared to December 31, 2010.

### ***Brazil Business Area***

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

Item 4. Information On The Telecom Italia Group	Business
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In late October 2011, the Tim Brasil group acquired control of two companies of the AES Atimus group, now renamed Tim Fiber RJ and Tim Fiber SP, for operations in residential broadband.

At December 31, 2011, the Telecom Italia Group had 64.1 million mobile telephone lines in Brazil (51.0 million at December 31, 2010).

### ***Argentina Business Area***

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora—Telecom Argentina group. In particular, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal; in Paraguay it operates in mobile telecommunications with the company Núcleo.

At December 31, 2011 the Telecom Italia Group had approximately 4.1 million fixed lines (in Argentina) and 20.3 million mobile telephone lines (of which 18.2 million in Argentina and 2.1 million in Paraguay).

#### **4.1.4 DISPOSALS AND ACQUISITIONS OF SIGNIFICANT EQUITY INVESTMENTS IN 2011**

For a description of disposals and acquisitions of significant equity investments in 2011 please see “Note—Form, Content and Other General Information”, “Note—Business Combinations”, “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 2012**

On April 20, 2012, the Company was notified by the Milan Public Prosecutor of the conclusion of a preliminary investigation under the Italian Code of Criminal Procedure in which three previous executives of the Company (including Mr. Luca Luciani who as of April 20, 2012 was the CEO of Tim Participações S.A., the listed and principal holding company of the Tim Brasil business area (“**Tim Participações**”), were charged with obstruction of supervisory activity. The charges relate to (i) the alleged unlawful renewal of prepaid SIM-cards after their normal termination date from 2006 to 2008, in the amount of 223,000 lines or 0.19% of market share in 2006; 2,742,000 lines or 1.88% of market share in 2007; and 2,345,000 lines or 1.64% of market share in 2008, and (ii) around one million SIM-cards which allegedly were not refilled in the 12 months after their activation (184,000 lines in 2005; 445,000 lines in 2006; 335,000 lines in 2007; and 78,000 lines in 2008). The Company is continuing to review the documentation relating to the investigation received from the Milan Public Prosecutor. Information regarding this investigation and that Tim Participações’ chief executive officer was a possible subject of such investigation had been previously disclosed by our subsidiary Tim Participações.

On May 4, 2012, Mr. Luca Luciani resigned from Tim Brasil and Tim Participações and gave up all mandates he had with any companies within the Group. On May 14, 2012, Andrea Mangoni, CFO of the Telecom Italia Group and already a member of the board of directors of Tim Participações, was nominated as the interim CEO of the Tim Brasil business area subject to certain regulatory approvals by the competent Brazilian authorities; Mr. Mangoni will be appointed and he will assume the role of interim CEO, upon granting of such approvals. In the meantime, on May 14, 2012 the board of directors of Tim Participações acknowledged Mr. Claudio Zezza as acting principal executive officer.

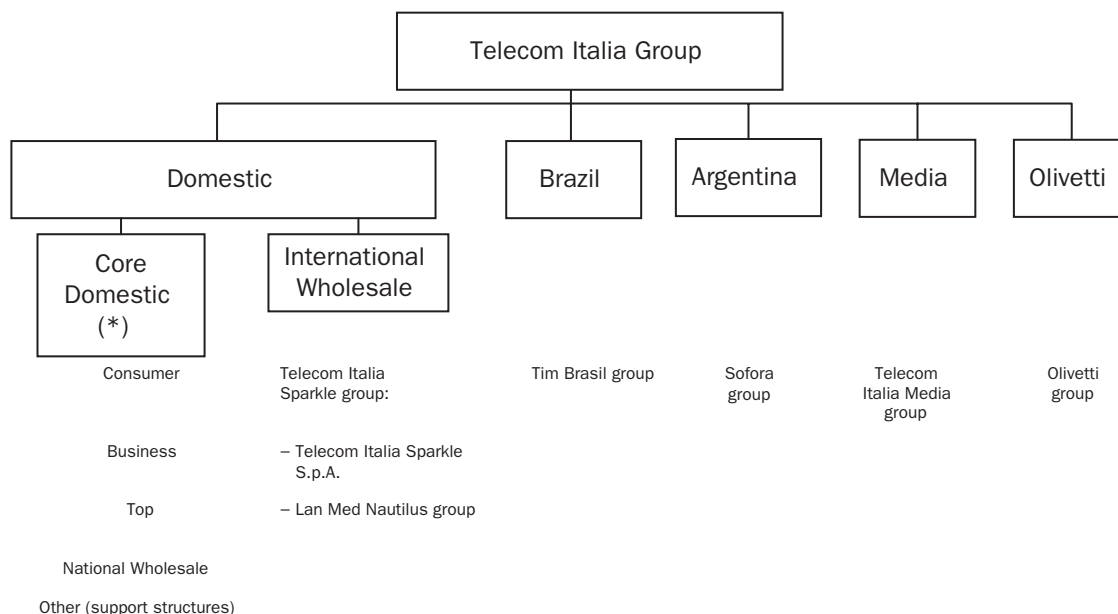
For a description of other recent developments please see “Item 8. Financial Information—8.2 Legal Proceedings” and “Note—Events Subsequent to December 31, 2011” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Item 4. Information On The Telecom Italia Group	Business
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#### 4.1.6 OVERVIEW OF THE TELECOM ITALIA GROUP'S MAJOR BUSINESS AREAS

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

The following is a chart of the Telecom Italia Group's Business Units as of December 31, 2011:



(\*) Main subsidiaries: Telecom Italia S.p.A.; Matrix S.p.A.; Telenergia S.p.A.; Telecontact Center S.p.A., PAtH.Net S.p.A., HR Services S.r.l. and Shared Service Center S.r.l..

On October 31, 2011, a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A. were acquired. Both are telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. The acquisitions were carried out through the subsidiary Tim Celular S.A.—Brazil Business Unit.

On July 27, 2011, the 4G Holding group entered the scope of consolidation (in the Domestic Business Unit) after the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l.. The acquisition of 4G Holding, with its approximate 200 points-of-sale located in the most important shopping malls in Italy, will enable Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment and broaden its nationwide presence.

On October 13, 2010, Sofora Telecomunicaciones S.A.—the holding company which controls Telecom Argentina—entered into the scope of consolidation following the increase, from 50% to 58%, in the stake held by the Telecom Italia Group in the share capital of Sofora. In 2011, further shares were acquired which increased the economic stake in the Telecom Argentina group from 16.2% as of December 31, 2010 to 22.7% as of December 31, 2011.

For further details about companies which are part of the various Business Units, please see Note “List of companies of the Telecom Italia Group” of the Notes to the Consolidated Financial Statements included elsewhere herein.

For the revenues, operating profit (loss), capital expenditures and number of employees of the Telecom Italia Group's Business Units please see “Item 5. Operating and financial review and prospects—5.2 Results of operations for the three years ended December 31, 2011—5.2.5 Business unit financial data”.

Item 4. Information On The Telecom Italia Group	Business
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#### 4.1.7 UPDATED STRATEGY

##### ***Strategic Priorities and Objectives for the 2012-2014 Three-year Period (the “Plan”)***

The updated 2012–2014 Plan was presented on February 24, 2012 and confirms the following strategic priorities and objectives for the Telecom Italia Group:

- reinforcement of cash flow generation via: repositioning on markets with the best growth prospects, setting the company back on a path to growth; continued improvement in operational efficiency, especially in our Italian domestic market; and a demand-driven approach to investments;
- steady and persistent deleveraging to reduce the Group's net financial debt, coupled with sustainable shareholder remuneration.

##### ***Domestic market***

In the Domestic market, Telecom Italia intends to proactively manage for cash generation, through:

- Defense of its revenues:
  - protect the value of traditional services;
  - improve performance of fixed broadband portfolio;
  - profitable mobile data growth.
- Operating costs efficiency:
  - continuous focus on efficiency improvements.
- Selective network deployment:
  - primarily to exploit UBB (Ultra broadband) demand as well as continuing investment in its network, in each case using a market-driven approach.

##### ***Brazil***

Tim Brasil's strategic objective is to continue its business expansion, exploiting growth as a strong mobile and fixed broadband challenger by:

- capturing further voice increase and opportunities from FMS (Fixed Mobile Substitution);
- continuous boost from mobile data;
- deployment of TIM Fiber.

##### ***Argentina***

Telecom Argentina's strategy is focused on managing growth and profitability, consolidating the mobile business and pursuing convergence:

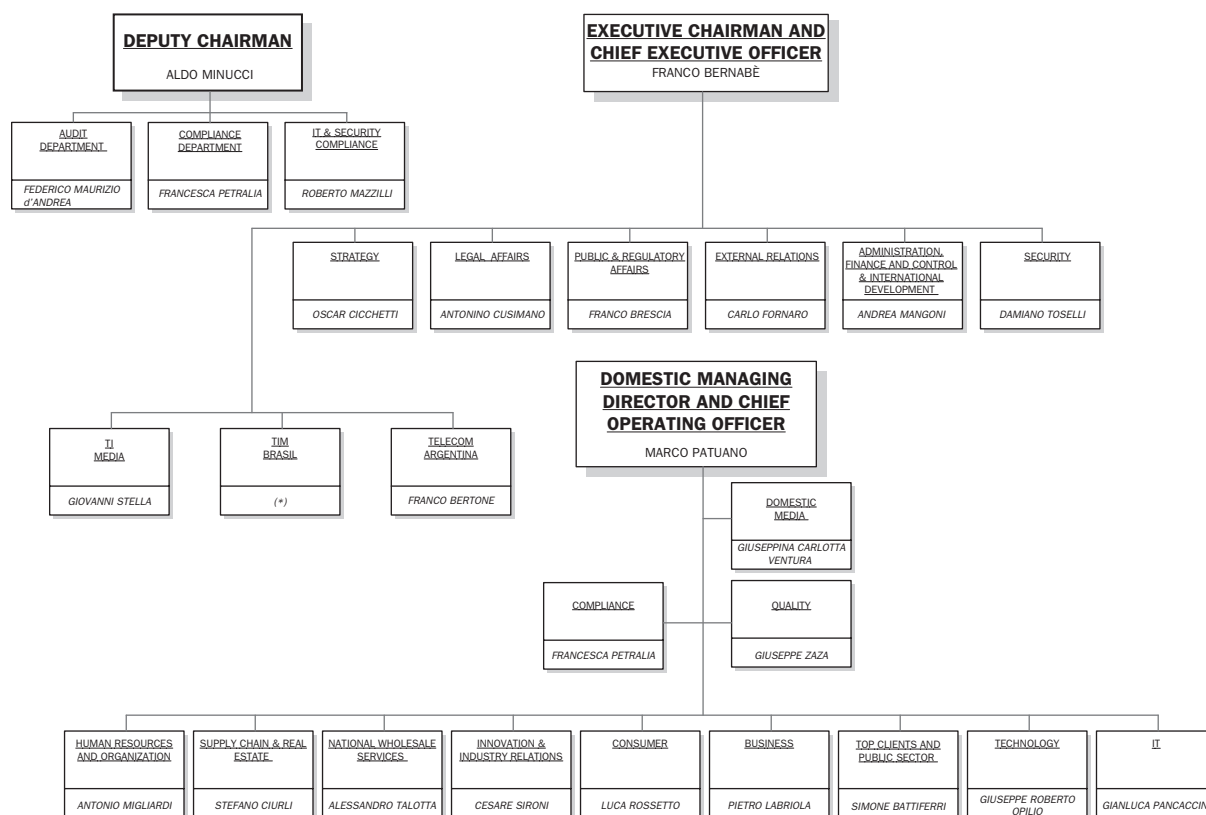
- increasing mobile and fixed customer base;
- consolidating mobile revenue share; and
- pursuing convergence in the development of its fixed and mobile networks through the use of synergies.

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

Item 4. Information On The Telecom Italia Group	Business Units
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#### 4.1.8 THE ORGANIZATIONAL STRUCTURE

The following diagram highlights the organizational structure of the Telecom Italia Group as of May 14, 2012:



(\*) On May 4, 2012, Mr. Luca Luciani, the CEO of Tim Participações and executive officer of Telecom Italia, resigned from Tim Brasil and Tim Participações, giving up all his mandates in the Group's companies. Please see "—4.1.5 Recent Developments During 2012".



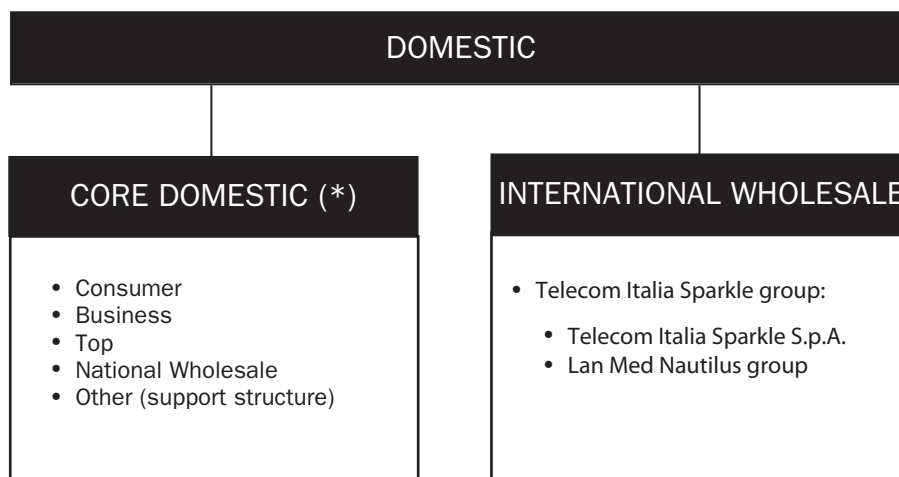
Item 4. Information On The Telecom Italia Group	Business Units
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## 4.2 BUSINESS UNITS

### 4.2.1 Domestic

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

The Domestic Business Unit is organized as follows as of December 31, 2011:



(\*) Principal companies: Telecom Italia S.p.A., Matrix S.p.A., TelenergiaS.p.A., Telecontact Center S.p.A., PAth.Net S.p.A., HR Service Center S.r.l. and Shared Service Center S.r.l.

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

- **Core Domestic:** Core Domestic includes all telecommunications activities within the Italian market. Revenues indicated in the tables that follow are divided according to the net contribution of each market segment to the CGU's results, excluding intrasegment transactions. The sales market segments defined on the basis of the "customer centric" organizational model are as follows:
  - **Consumer:** Consumer comprises the aggregate of voice and internet services and products managed and developed for individuals and families in the fixed and mobile telecommunications markets, public telephony and web portal/services;
  - **Business:** Business comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHOs (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top:** Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;
  - **National Wholesale:** National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile telecommunications operators in the domestic market;
  - **Other (support structures):**
    - Technology & IT: services related to the development, building and operation of network infrastructures, real estate—plant and information technology, in addition to delivery and assurance processes regarding client services;
    - Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.
- **International Wholesale:** International Wholesale includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

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## ❖ **MARKETING CHANNELS AND DISTRIBUTION**

As a result of the customer centric approach, Telecom Italia utilizes a sales structure as follows for each of its customer segments:

### ***Distribution***

The sales structure is organized according to a vertical, multi-channel approach, in which different types of distribution channels are specialized in different customer segments of the market, based on clusters of customers and services. This approach enhances the focus and customization of our products.

#### ● ***Consumer***

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

- the "Push Sales Channel" consisting of an outbound telephone channel called "Telesale" with a network of 18 partners with 2,300 operators supported by 32 employees and the "Agent" channel made up of sales agents with a network of 49 partners with 650 sales agents assisted by 45 employees. An additional 60 employees support sales in the areas of Development and Coordination;
- the "Pull" channel: consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of approximately 6,200 retail points of sale (at December 2011). Points of sale are geographically widespread and of many different types: direct; franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

In addition to these partners, distribution also is done through the "Public Telephone" channel, a network of 17 partners focused on National and International prepaid card services and associated traffic packages.

#### ● ***Business***

The business distribution channels are made up of:

- "SA—Senior Account" channel: a network organized geographically based on about 146 partners focused on the top level of high value customers;
- "BP—Business Partner" channel: a network focused on standard offers with about 1,600 agents;
- "VAR—Value Added Reseller" channel: a network organized geographically focused on VAS, customized solutions and complex networks (200 agents) and on ICT (another 200 agents);
- IM—Innovation Manager; channel focused on innovative products and services (40 agents);
- Outbound Call Center: 7 partners focused on specific canvass and loyalty activities;
- Community Account: 4 agents focused on vertical segmentation (i.e. agreements with professional associations); and
- Shops: some specific shops (1,000 among Pull Channel shop) offering business products and assistance (16 Key Account).

#### ● ***TOP***

The Top Customers Department is organized in two separate Units, one dedicated to Private Top Customers (Large Companies, Banks, Insurance, etc) and one to the Public Sector (Public Administration, Health, etc). At the end of 2011 around 640 Sales personnel had a dedicated portfolio to supervise and develop, supported by structures focused on pre sales (e.g. offers design) and post sales processes (e.g. assistance). The main activities include:

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

#### ● ***National Wholesale Services***

The National Wholesale Services ("NWS") division manages relationships with approximately 300 other TLC operators, which are both customers and competitors of Telecom Italia. These customers purchase Telecom Italia network and professional services to build their services for end or intermediate customers.

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

- analysis of technological innovation and business evolution of wholesale market;
- definition of the offers needed by wholesale market, developed by its marketing staff under the conditions and rules set by National and European Authorities;
- sales through direct vendors;
- contracts definition and disputes solution through specialized personnel;
- providing of delivery and assurance services, through 5 customer care centers distributed in the country, in strict collaboration with the functions of Technology; and
- billing and administrative reports management.

The NWS is set up as an independent department which allows Telecom Italia, along with other conditions (accounting separation, compliance with the resolutions of the Authorities) to manage transparency and fairness in its relationship with other operators as well as compliance with all regulatory requirements.

#### ❖ 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,		
	2011	2010	2009
<b>DOMESTIC FIXED</b>			
Fixed-line network connections in Italy at year-end (thousand) .....	16,745	17,609	18,525
Physical accesses (Consumer + Business) at year-end (thousand) .....	14,652	15,351	16,097
Broadband accesses in Italy at year-end (thousand) .....	9,089	9,058	8,741
Of which retail broadband accesses (thousand) .....	7,125	7,175	7,000
<b>Network infrastructure in Italy:</b>			
● access network in copper (millions of km—pair, distribution and connection) ....	112.2	111.7	110.5
● access and carrier network in optical fiber (millions of km—fiber) .....	4.6	4.3	4.1
<b>Network infrastructure abroad:</b>			
● European backbone (km of fiber) .....	55,000	55,000	55,000
● Mediterranean (km of submarine cable) .....	7,500	7,000	7,000
● South America (km of fiber) .....	30,000	30,000	30,000
<b>Total traffic:</b>			
Minutes of traffic on fixed-line network (billions): .....	108.9	121.5	134.4
● Domestic traffic .....	93.3	104.1	115.6
● International traffic .....	15.6	17.4	18.8
<b>DOMESTIC MOBILE</b>			
Number of lines at year-end (thousand) .....	32,227	31,018	30,856
Change in lines (%) .....	3.9	0.5	(11.3)
Churn rate (%) <sup>(1)</sup> .....	21.9	22.0	29.4
Total outgoing traffic per month (millions of minutes) .....	3,633	3,305	2,982
Total average outgoing and incoming traffic per month (millions of minutes) .....	4,843	4,597	4,260
Average monthly revenues per line <sup>(2)</sup> (euro) .....	17.4	19.7	20.0

(1) 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.

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

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

Telecom Italia has approximately 14.7 million physical accesses (consumer and business) at December 31, 2011 in Italy, a decrease of 0.7 million compared to December 31, 2010.

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The broadband portfolio in Italy reached 9.1 million accesses at December 31, 2011 (consisting of approximately 7.1 million retail accesses and 2.0 million wholesale accesses), stable compared to December 31, 2010 (a market share of 53%).

In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines at December 31, 2011 in Italy, an increase of 1.2 million mobile telephone lines compared to December 31, 2010.

#### ❖ MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory events which occurred in 2011 that may have a significant impact on the operation of the Domestic Business Unit, please see "Item 4. Information On The Telecom Italia Group—4.3 Regulation".

#### ❖ COMPETITION

##### *The market*

Strong competitive pressure in the Italian telecommunications market over the years has led to an ongoing decline in the traditional components of service, particularly voice service.

In this context, the key element in the evolution of the market has been the increased penetration of broadband, first fixed and now also mobile, and above all greater penetration of new generation handsets.

At the same time, the evolution of the competitive scenario continues to evolve towards a situation of increased complexity, with greater interaction between players of different markets, opening the field to the competition of non-traditional operators, particularly OTTs (Over the Top) companies and producers of electronic and consumer devices, as well as giving telecommunication operators the opportunity to develop new so-called "network based" services (mainly in the IT and Media fields).

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

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

- in Media, the broadcasters, vertically integrated players, continue to dominate the scenario but, with the Web having a growing importance as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies and the OTTs;
- in Information Technology (where Italy continues to have a level of investment relative to its GDP which is significantly lower than that of the United States and of other European countries), the decline in revenues is driving the various players towards the cloud computing "growth oasis" as a way of protecting market shares in their respective core businesses. A strengthening of the telecommunications operators is expected in this sector, although often through partnerships;
- in the Consumer Electronics market, the producers can develop services that can be used over the internet, appealing to handset owners and user experience, attenuating the relationship between the customer and the telecommunications operator and competing with the media and OTTs, through the games console and the set-top box, for the role of "net enabler" of the living room screen;
- the OTT operators lead, for some time now, the transformation of the ways TLC (also over voice) services are used and are increasingly integrating them with Media and IT.

Conversely, with regard to the positioning of the telecommunications operators in the converging markets, it should be noted that there are, at varying levels of development:

- initiatives to enter the IT market of innovative services by expanding Cloud services from the business to the consumer world;
- new wireless applications such as Machine-to-Machine and mobile payment; and
- significant presence as facilitators of online digital content use on the living room screen using OTT TV multidevice solutions.

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### ***Competition in Fixed-Line Telecommunications***

The fixed-line telecommunications market is characterized by the rapid decline in voice revenues due to both the reduction in prices and the progressive shift of voice traffic to mobile. In recent years all the operators have attempted to offset this phenomenon by concentrating mainly on the ability to innovate their offering by developing the penetration of ADSL and by introducing bundled voice, broadband and services deals (the double play), in a highly competitive context with the consequent pressure on pricing.

The evolution of the competitive product offering has been affected by the transition of competitors from an essentially reseller approach (Carrier Selection/Carrier PreSelection for voice and Wholesale for ADSL) to an approach based on control of the infrastructure (Local Loop Unbundling ("LLU") above all). In addition, the fixed-mobile convergence trend is more and more evident, with the main operators now offering integrated services and many operators now also being MVO's (Mobile Virtual Operators).

The migration of customers from fixed-line to mobile telephony services continued during 2011 and also the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat) due also to the high penetration of personal computers. For years, both for private consumers and for small and medium businesses there has been a substitution of mature traditional voice services with value-added content and services based on the internet protocol. Such change is favored by the use of the internet and by the changes in user preferences and also by the spread of broadband, personal computers and other connected devices as well as by the quality of the service.

The competitive scenario in the Italian fixed telecommunications market is characterized by the presence, besides Telecom Italia, of a number of operators (Wind-Infostrada, Fastweb, Vodafone-TeleTU, BTItalia) with different business models focused on different segments of the market.

At the end of 2011, fixed accesses in Italy numbered approximately 22.1 million, slightly down from 2010. The growing competition in the access market has led to a gradual reduction in Telecom Italia's market share.

Concerning the broadband market, at December 31, 2011 fixed broadband customers in Italy numbered about 13.5 million with a penetration rate on fixed accesses of about 61%.

The penetration of broadband is driven not only by the penetration of personal computers but also by the growing demand for speed and access to new IP based services (Voice over IP, Content, social networking services, gaming online, IP Centrex, etc.). In 2011, however, the growth in the fixed line broadband market contracted relative to the growth seen in the preceding years due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher value-added services and to the deterioration in the macroeconomic environment.

The decline continues in revenues from the data transmission segment, the main part of the Top customers market which, characterized by re-engineering and upgrading of internet accesses with high and very high transmission capacity and medium and large private data networks, has felt the effects of competition-resulting in a decline in average prices in the presence of a substantial stability in the various operators' market shares.

### ***Competition in Mobile Telecommunications***

The mobile market, while increasingly saturated and mature in its traditional component of voice services nevertheless continues to experience growth in the number of mobile lines, driven by the growth in multiSIM/multidevice customers and in non-human lines (that are lines which operate with a SIM card but are not used for voice services such as an Apple Ipad) (at December 31, 2011, mobile lines in Italy numbered about 97 million with growth of about 3% over 2010 and with a penetration rate of approximately 159% of the population).

Along with the progressive contraction in traditional service components such as voice and messaging, there has been significant growth in the mobile broadband market which in the last few years was, and in the future will still be, the main opportunity for the strategic and commercial growth of the mobile telecom industry.

In 2011, there has been a continuation of the growth of mobile broadband customers on both the large and small screen, with a high penetration rate on mobile lines owing to the growing number of smartphones and tablets found in the country.

Besides innovative services that have already caught on and are under full-scale development, as in the case of mobile Apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as mobile payment and mobile cloud.

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The competitive scenario in the Italian mobile telecommunications market is dominated by Telecom Italia and also by infrastructured operators (Vodafone, Wind, H3G) which are focused on different segments of the market or have different strategies.

In addition to these operators, MVOs are also in the field. PosteMobile is the most important player which at this time has a limited share of the market but records a significant rate of growth compared to infrastructured operators.

#### 4.2.2 BRAZIL

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

Moreover, through the subsidiary Intelig Telecomunicações, the Tim Brasil group completes its services portfolio by offering fiber-optic data transmission using full IP technology such as DWDM and MPLS.

In late October 2011, the Tim Brasil group acquired control of two companies of the AES Atimus group, now renamed Tim Fiber RJ and Tim Fiber SP, for operations in residential broadband.



The Tim Brasil group's services cover an area which includes around 94.4% of Brazil's urban population. Mobile operating subsidiaries have approximately 64.1 million mobile lines located in each of the Brazilian states and in the Federal District. As of December 31, 2011, its combined penetration reached approximately 123.9% of the Brazilian population and our combined market share totaled approximately 26.5%.

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. Management believes this convergence has been made feasible with developments under 3G.

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

	As of and for the years ended December 31,		
	2011	2010	2009
Number of lines at year-end (thousands) .....	<u>64,070</u>	<u>51,015</u>	<u>41,102</u>

#### ❖ MARKETING

During 2011, Tim Brasil intensified promotional activity on voice plans and further expanded data services.

For voice, in the Consumer segment, TIM continues with the existing "Infinity" and "Liberty" plans. Voice customer gross acquisitions in 2011 of the company amounted to 13.1 million new lines, an increase of 31.7% over the corresponding period of 2010.

In the Business segment, TIM continues offering the three plans launched in 2010. In the Company segment, TIM has intensified marketing activity, also with plans for fixed-line/data services from Intelig.



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In data services, TIM has stepped up the plans of the “TIM Web”, “Liberty Web” and “Infinity Web” promotions in order to stimulate market penetration. With regard to equipment, TIM has continued its strategy of reducing the subsidy on handsets and promoting the use of the service.

Internet use on cell phone has also been driven by combined offerings of voice and data with smartphones or webphones. Among the best selling combos, was one that offered iPhone 3GS in TIM Liberty Empresa 400 plan for R\$129/month. In the second half of 2011, 90% of handsets sold to the corporate segment were smartphones or webphones.

For companies that want connectivity through computer, notebook or tablet, TIM Brasil launched a family with 4 broadband internet plans, all for unlimited data use, ensuring convenience and transparency in the bill. Among these plans, there is TIM Liberty Web Tablet, the first market plan thought for tablet use. For the launch, TIM Brasil had an exclusive offering with a Samsung Galaxy Tab for R\$89/month.

Aiming to meet specific segment demands, TIM launched in 2011 an exclusive offering for doctors. In this offering, the doctor can purchase a combo with Smartphone, a modem, a tablet and a landline with their respective plans, all of this for a fixed monthly price, from R\$279. Furthermore, the client acquires for six free months an exclusive TIM solution for the health professional, which allows access to medical information, sending and controlling doctors’ appointment reminders by SMS and medical calculators. This offering and approach was planned based on surveys and analyses of the needs of doctors to help in effectively managing their day-to-day work and personal life.

In fixed line services, TIM launched, in the third quarter, 2011, “TIM Fixo Ilimitado”. This product allows the user to make unlimited duration calls to any fixed telephone in Brazil, of any operator. In addition to unlimited calls to local mobile TIM, indicating a convergence among its products.

#### ❖ DISTRIBUTION

Tim Brasil’s services are marketed through the largest distribution network in Brazil, with over 9,000 points of sale, among premium stores and dealers (exclusive or multi-brand), in addition to relying on the distribution capacity of a number of major retail chains. Tim Brasil’s prepaid service customers rely, in addition to traditional points of sale, on alternative recharge channels, such as supermarkets and newsstands, totaling about 400,000 points spread all over Brazil. Sales of Tim Brasil’s products and services are offered by Tim Brasil’s sales personnel, as well as by authorized dealers. Most devices are sold on credit card and in 12 installments.

#### ❖ MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory developments which occurred in 2011 that may have an economic impact on the Brazil Business Unit, please see “Item 4. Information On The Telecom Italia Group—4.3 Regulation”.

#### ❖ COMPETITION

At the end of 2011, the Brazilian mobile market reached 242.2 million lines. This is 19.3% more than in 2010 and a penetration rate of 123.9% of the population (104.7% in 2010). The total net increase for the year was 39.3 million, exceeding the growth figure of 29 million in 2010, making 2011 as the year with the highest market growth ever recorded.

### 4.2.3 ARGENTINA

The Telecom Italia Group operates in the fixed and mobile telecommunications sector in Argentina mainly through Telecom Argentina and Telecom Personal, respectively, as well as mobile telecommunications operations in Paraguay through Núcleo. In particular, Telecom Argentina is one of the largest private-sector companies in Argentina. Telecom Argentina has a non-expiring license to provide fixed-line telecommunications services and also provides other telephone related services such as international long-distance service, data transmission, IT solutions outsourcing and Internet services. Personal has a non-expiring licence to provide mobile services in Argentina and Núcleo has a renewable license to provide mobile services in Paraguay.



(\*) Non-operating companies.

Telecom Argentina pursues a business strategy focused on increasing its profitability and maximizing value generation for its customers, shareholders, employees and the broader community it serves. In order to promote the achievement of its goals in a sustainable and consistent manner, the Argentine Business Unit develops business plans according to the market and macroeconomic environment and invests in products and services innovation aimed at improving its customers' user experience by adding content, interactivity and convenience to communication.

The penetration of telecommunication services in the Argentine market continues to grow at a steady pace above the average in the region. The Business Unit penetration growth rate continues to grow above the market rates.

In the **fixed services**, the growth was led by the increase in the Broadband business, as a result of a 12% increase in the Internet accesses (reaching 1.6 million accesses as of December 31, 2011) and the 14% increase in the Broadband ARPU (access+ISP) compared to 2010. The growth in voice revenues was mainly leveraged by the increase in the customer base with minutes included in the plans and higher value added services. Fixed lines increased approximately 1% reaching 4.1 million as of December 31, 2011.

In the **mobile business**, the Personal customer base increased by 1.9 million in 2011 reaching 18.2 million clients as of December 31, 2011 (of which 32% are postpaid contracts). At the same time, ARPU increased approximately 16% over the prior year. A large part of this growth can be traced to value-added services (including SMS text messaging and the mobile internet service) which, on the whole, accounted for approximately 48% of Personal mobile service revenues in 2011. Additionally, Personal has developed a new brand identity in line with the values in which it trusts to successfully implement the number portability in 2012.

In Paraguay, Núcleo's customer base grew by about 14% over the prior year reaching 2.1 million lines at year-end, of which 17% were postpaid. During 2011, Núcleo consolidated its brand highlighting the attributes of closeness, youth and convenience, remaining as a leader in preference of young customer segments.

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

	As of and for the years ended December 31,		
	2011	2010	2009
Number of fixed lines (thousands) .....	4,141	4,107	4,060
Number of mobile lines (thousands) .....	20,342	18,212	16,281
Broadband accesses (thousands) .....	<u>1,550</u>	<u>1,380</u>	<u>1,214</u>

## ❖ MARKETING

### Fixed Services

In the residential fixed business, Telecom Argentina has concentrated its efforts in satisfying its customers access demand, trying to contain the drop of minutes of use related to the effect of substitution of mobile traffic and increasing the ARBU (Average Revenue Billed per User). Revenues from local traffic continue to increase leveraged by the growth of lines with minutes included in the plan and subscription plans, despite the slight drop in traffic



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volume. Also, and to adjust the portfolio to customer's needs, new local calling plans were launched to lower consumption customers. Regarding national and international long distance services, the focus has remained on encouraging the purchase of subscription plans and upselling campaigns, resulting in an improved ARBU.

In the Internet business, the leadership of the brand "Arnet" was based on effective marketing with differentiated offers by segment and competitive prices. In December 2011, with the launching of 10 mega Arnet, the portfolio of access speeds available was expanded, creating a new alternative in terms of average speed.

With respect to value-added on broadband access, in November 2011 Telecom Argentina launched *Arnet Play*, the first video streaming service for residential customers. The service provides customers, through a monthly fee payment, the ability to access to a vast library of contents. Another important value-added service introduced in 2011 was *Arnet Móvil*, which provides access to Internet through the Personal 3G network. This service is aimed to broaden the service already offered to customers with a fixed broadband connection.

Corporate segment continued its strategy of providing converged solutions that integrate voice, data, Internet, multimedia, ICT, data centers and applications.

### **Mobile Services**

During 2011, Telecom Personal continued its strategy of innovation leadership with the launch of various products, promotions and benefits to meet the diverse communication needs of different types of customers. The consolidation of the 3G coverage and the evolution of the value-added services powered by smartphones and tablets, defined the kind of offers developed over 2011.

Telecom Personal continued to expand the offerings called *Todo Incluido* plans that integrate voice, data and text messages, along with *Personal Black*, the platform that offers a Premium subscription service with unlimited data services and a portfolio of smartphones and tablets with special content at affordable prices.

Also, in 2011 the granting of recharging benefits and service packs for Personal's customers was consolidated, as well as differential benefits for *Club Personal* members. Both actions repositioned Telecom Personal in terms of convenience.

With respect to Núcleo, commercial offers launched during 2011 were characterized by greater alignment with market demands, a policy that helped improving its customer's perception. Núcleo packs offers during 2011 consisted of greater variety of services with affordable prices.

### **❖ DISTRIBUTION**

During 2011, Arnet continued with multimedia communication campaigns that further served to strengthen brand positioning. With respect to web sites, their main target was to become a channel for the exploration of Telecom Argentina products and services and for the improvement of the relationship with its customers. The web sites focused on communicating in real time all the brand offers, creating a digital experience with both Arnet (Internet products and services) and Telecom (products and related voice services) brands, and enriching customer self-management.

Focused on developing the customer base as a driver of satisfaction, Personal's commercial offices deepened their management model and customer counseling and education by selling value-added products, handset replacement and up selling actions. By the end of 2011, Personal had a total of 61 commercial offices.

Telecom Personal also continued working on points of sale relocation in strategic areas to improve productivity. Telecom Personal deepened its digital relationship with customers, developing new contact channels through social networks, refocusing the web channel strategy on the concept of self-management. Finally, the e-commerce channel was developed for both handsets replacement and sale of new lines, and also as a contact point for current and potential customers.

Núcleo has opened six new commercial offices in Paraguay, reaching a total of 44 commercial offices by the end of 2011. This had a significant impact on customer's closeness and on customer care improvement by reducing distances. Also, Núcleo continued enhancing customer care as a value creation media, achieving excellent sales results via telephone, Internet, and video sales.

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#### ❖ MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory developments on the Argentina Business Unit which occurred in 2011, please see “Item 4. Information On The Telecom Italia Group—4.3 Regulation”.

#### ❖ COMPETITION

The telecommunications market in Argentina and Paraguay continues to feature strong demand for new services and higher access speeds, in a highly competitive environment in the fixed and mobile businesses.

Competition is mainly focused on Internet, data and mobile services, including residential, corporate and government accounts, while fixed telephony is characterized by market maturity. In particular, in the Argentina mobile business, Telecom Personal is one of the three operators which offer services at national level, competing with Claro (America Móvil group) and Movistar (Telefónica group). With the introduction of Number Portability in 2012, competition is expected to intensify. The acquisition and retention of high-value customers will continue to be a key factor to Personal’s strategy, which will be supported through the launch of new products and services that will enable not only to retain existing customers, but also to continue increasing its market share.

In Paraguay, Núcleo has strengthened its market position, although operating in a market characterized by a high level of competition. Its main competitor is Tigo (Millicom Group).

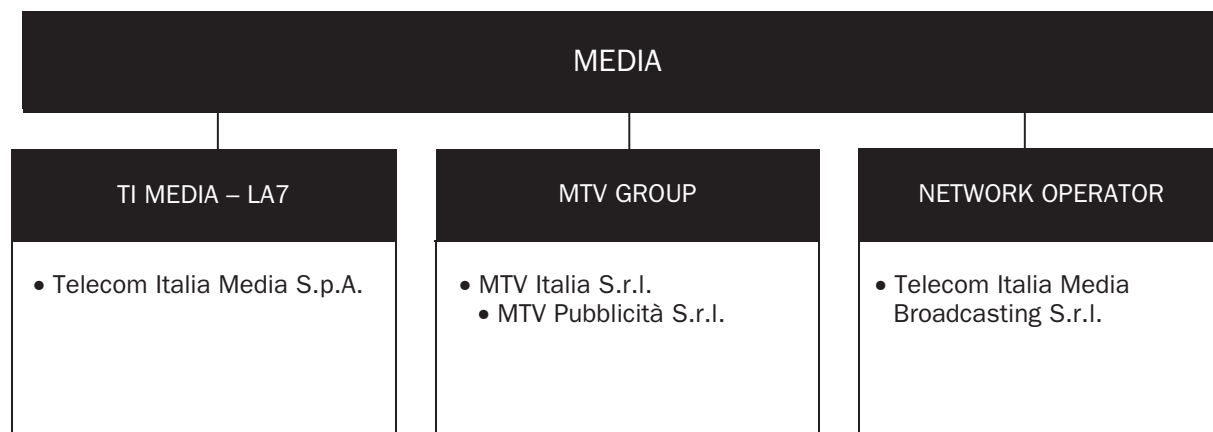
As for the broadband segment, the Business Unit Argentina operates under the brand Arnet and mainly competes with ADSL Speedy (Telefonica group), with Fibertel (Clarín group), which provides broadband access services by cable-modem, and with Telecentro, offering a triple play offering.

#### 4.2.4 MEDIA

The Telecom Italia Media group is organized into the following operating segments: TI Media—La7, MTV Group and Network Operator. In particular:

- **TI Media—La7** includes the Telecom Italia Media’s operations relating to the television broadcasters La7 and La7d and the Multimedia/Web area (La7.it and La7.tv). Until September 30, 2011, it also included the Telecom Italia Group’s Digital Content operations, which were discontinued effective October 1, 2011, following the early termination of the contract with Telecom Italia;
- **MTV group:** includes the operations of MTV Italia and its subsidiary MTV Pubblicità relating to the television broadcasters MTV and MTV Music, the 360° Playmaker production unit, the production of multimedia musical platforms and satellite channels, in addition to MTV Mobile and Digital (Web);
- **Network Operator (TIMB):** includes the operations of Telecom Italia Media Broadcasting relating to managing the analog and digital broadcasting networks of La7 and MTV and the Digital Multiplex channels operated by the Group, in addition to accessory services and radio and television broadcasting platforms offered to Group companies and third parties.

As of December 31, 2011, the Business Unit was organized as follows:



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

	As of and for the years ended December 31,		
	2011	2010	2009
<b>MEDIA</b>			
La 7 audience share Free to Air (average during the period, in %) .....	<u>3.8</u>	<u>3.1</u>	<u>3.0</u>
La 7 audience share Free to Air (average of the last month of the period, in %) ...	<u>3.9</u>	<u>3.3</u>	<u>2.9</u>

#### ❖ MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory events which occurred in 2011 that may have an economic impact on Media Business Unit, please see "Item 4. Information On The Telecom Italia Group—4.3 Regulation".

#### 4.2.5 OLIVETTI

The Olivetti group mainly operates in the sector of office products and services for Information Technology. Due to its offering of cutting-edge hardware and software, its Solution Provider activities offer solutions able to automate processes and business activities for small and medium enterprises, large corporations and vertical markets. The Group continues the process, begun during the last few years, of expanding and diversifying the offering by concentrating on both the development of software solutions and applications services for businesses and public administrations, and also specialized electronic devices.

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

As of December 31, 2011, the Olivetti Business Unit was organized as follows (the main companies are indicated):



#### 4.2.6 COMPETITION

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

For details please see "Item 4. Information on the Telecom Italia Group—4.1 Business—4.1.7 Updated Strategy", "Item 4. Information on the Telecom Italia Group—4.2.1 Domestic" and "Item 4. Information on the Telecom Italia Group—4.2.2 Brazil" and "Item 4. Information on the Telecom Italia Group—4.2.3 Argentina".

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### 4.3 REGULATION

#### The EU regulatory framework

Telecom Italia's operations in the European Union ("EU") are subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and communications. As such, being a member of the EU, Italy is required to implement the directives issued by the EU. Contrary, Regulations, however, adopted at the EU level have general application and are binding and directly applicable in each EU Member States without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although politically important.

The European Commission began liberalizing the telecommunications market to competition in the late 1980s and early 1990s. In Italy, as well as in all the main EU Member States, the liberalization brought to the opening to competition of public voice telephony and public network infrastructure in 1998.

The need for a revision of the 1998 framework emerged from the growing convergence between telecommunications, broadcasting and information technology. A new EU Regulatory Framework (consisting of five Directives: the framework; access and interconnection; authorisation; the universal service and users' rights; privacy and data protection directives) was adopted in 2002, regulating all forms of fixed and wireless telecoms, data transmission and broadcasting.

A recommendation adopted in February 2003, on relevant product and service markets susceptible of ex ante regulation, completed this set of legal instruments. In December 2007, the European Commission ("EC") amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible to ex-ante regulation to 7: retail access at a fixed location (market 1) and, 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) and voice call termination on mobile networks (market 7).

The EU regulatory framework obliges National Regulatory Authorities ("NRAs", in Italy "AGCom") to run market analyses before imposing appropriate obligations on individual operators having Significant Market Power ("SMP") according to specific EU guidelines. A company is deemed to have SMP if, either individually or jointly with others, such company enjoys a position equivalent to dominance, that is to say a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers. Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40% and market shares in excess of 50 % are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The market analyses carried out by NRAs are subject to the assessment of the EU Commission which, to a certain extent, can challenge the NRAs findings, having a "veto power" on the definition of the market and on the identification of SMP operators. As per the choice of remedies the EU Commission has no veto power but can raise serious doubts after which the "Body of European Regulators for Electronic Communications ("BEREC") is required to give an opinion. The EU Commission, BEREC and the NRA involved then have to cooperate to find a solution within three months. Neither the Commission nor BEREC are able to make a binding intervention. Should a NRA decide not to amend or withdraw a draft measure after the EU Commissions expresses serious doubts, it shall provide a "reasoned justification".

The EU legal framework was further revised in November 2007, with the aim to define the new European regulatory framework for the sector.

The revision of the framework established a set of rules composed of the "Better Regulation Directive" (Directive 2009/140/EC, amending the "Framework", "Access" and "Authorisation" directives) and the "Citizens' Rights Directive" (Directive 2009/136/EC amending the "Universal Service" and "E-Privacy" directives and the Regulation 2006/2004 on Consumer Protection Cooperation) to be transposed into national laws of the 27 EU

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Member States by 25 May 2011 and by the Regulation—which was directly applicable—establishing the new European Telecoms Authority BEREC”. The new EU telecoms rules were officially adopted on December 18, 2009.

The revised directives will be transposed into the Italian legal framework by means of the "*Legge Comunitaria 2010*" submitted to the Parliament on August 5, 2010. The "*Legge Comunitaria 2010*" was published in the Italian Official Journal on January 2, 2012; delegated to the Italian Government the adoption (within three months) of measures aiming at transposing the revised directives. The Legislative decree is likely to be adopted by the end of June 2012.

### Telecommunication Regulatory Framework in Italy

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

- (i) Law 26 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which sets up "Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz";
- (ii) the "Electronic Communications Code" ("**ECC**"), Legislative Decree August 1, 2003, n. 259, which transposed into national law the EU Access, Authorisation, Framework and Universal Service directives;
- (iii) "Data Protection Code" (Legislative Decree June 30, 2003, n. 196), last amended by Law November 20, 2009, n. 166;
- (iv) the "Consolidated Law on Radio-Television" (Legislative Decree July 31, 2005, n. 177) containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;
- (v) the "Consumer Code" adopted with Legislative Decree September 6, 2005, n. 206;
- (vi) Legislative Decree October 3, 2006, n. 262 which contained "Urgent measures regarding tax and financial issues" and, partially amended the sanctions' regime set by the ECC by introducing further examples of administrative offences, a generalised increase in the fines for each sanction and the elimination of the partial cash settlements of fines;
- (vii) Decree Law January 31, 2007, n. 7 (enacted by Law April 2, 2007, n. 40) containing urgent measures for the protection of consumers, for the promotion of competition, for the development of economic activities. The above mentioned law impacts the electronic communications sector by prohibiting top-up charges and the expiration of phone traffic for prepaid phone cards;
- (viii) Legislative Decree May 30, 2008, n. 109 amending Directive 2002/58/EC and transposing into national law 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;
- (ix) Law June 18, 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fibre networks (Article 1 "Broadband");
- (x) Law Decree July 6, 2011, n. 98, enacted by Law July 15, 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt); and,
- (xi) the 2011 Budget Law (Law December 13, 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies' rights of use.

Furthermore, the ECC confirmed the responsibilities of the Ministry of Communications and of AGCom as set by the previous legislation. In particular:

- (i) the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;
- (ii) AGCom is an independent regulatory authority granting fair competition among operators and protecting consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

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### 4.3.1 TELECOMMUNICATION REGULATION IN ITALY

In July 2008, Telecom Italia proposed to AGCom several undertakings related to its access network ("**Undertakings**") aimed at integrating and strengthening the non-discrimination obligations (imposed by AGCom in 2002) amongst Telecom Italia's own retail divisions and other operators in the provision of wholesale access network services.

AGCom approved Telecom Italia's Undertakings, which are divided into 14 main groups and pursue four main goals:

- offering additional guarantees of equal treatment amongst Telecom Italia's commercial divisions and other electronic communications operators ("**Operators**") purchasing wholesale access services from Telecom Italia;
- providing benefits to Operators and final users, through the improvement in the quality of the fixed access network and of related services;
- making the evolution of Telecom Italia's fixed access network more transparent for Operators; and,
- ensuring the maintenance of competitive conditions in the migration towards new generation networks.

Following the AGCom approval of the Undertakings, a number of proceedings which could have resulted in sanctions against Telecom Italia were suspended.

At the beginning of 2008, Telecom Italia created the Open Access department, a separate business unit focusing its activities on the implementation of the Undertakings. To ensure equal treatment for its own retail divisions and those of the Operators ("**internal-external equal treatment**"), Telecom Italia undertook a set of activities focused on three main areas:

- technical-organisational domain: solutions for the improvement of internal delivery processes and to assure that SMP services were adopted;
- cultural-behavioural domain: a Code of Conduct has been adopted and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment; and,
- economic-regulatory domain: service contracts were drafted and transfer charges adopted to implement equality of economic treatment.

The implementation of the Undertakings, their complexity and their impact on the stakeholders' system, required the creation of a governance system. In particular, the following bodies were set up: an independent body (the "**Supervisory Board**") and the AGCom Undertakings' Monitoring Group for the monitoring of the work in progress ("**GMI**") and the Italian Office of Telecommunications Adjudicator ("**OTA Italia**"), whose mission is to prevent and settle disputes amongst Operators and the **Next Generation Network Committee** submitting possible solutions to technical, organisational and economic issues raised by the transition to the Next Generation Network.

In November 2011, three years after the formalisation of the Undertakings, with Decision 600/11/CONS, AGCom formally recognised that Telecom Italia had fully implemented all the Undertakings, terminating the proceedings against Telecom Italia that were suspended following the approval of the Undertakings.

At the end of 2011, 47 Operators had joined in the "New Delivery Process" ("**NDP**") for Bitstream, "Local Loop Unbundling" ("**LLU**"), "Wholesale Line Rental" ("**WLR**") and Collocation Services. Other Operators will join the NDP during 2012 according to a schedule agreed with Telecom Italia.

According to the above Decision 600/11/CONS, the GMI will continue to monitor the implementation of the Undertaking, with a particular focus on GU number 1 (New Delivery Process), 3-4 (KPIs), 5 (Technical and Quality Plans for the Access Copper Network) and 6 (Technical Plans for Fibre Access Network and Broadband).

After the AGCom's positive assessment and the notification to the European Commission, the Access Network Operational Separation model adopted by Telecom Italia can be considered an *avant-garde* European regulatory model and a viable alternative to the Access Network Functional Separation adopted by British Telecom (Open Reach).



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Telecom Italia's Operational Separation model will further continue to ensure quality of treatment (both in economic and technical terms), the promotion of an "Equivalence Culture", through personnel formation programmes, and transparency to ANOs for both Copper and Fibre Access Network.

### **Market analyses**

During 2006 and 2007, AGCom concluded the first round of analyses of the relevant electronic communications' markets, as identified by the EC 2003 recommendation. Following market analyses, AGCom designated Telecom Italia as SMP Operator in all wholesale fixed (physical) access and (virtual) broadband access, fixed and mobile call termination, fixed call origination, transit services, terminating and trunk segments of leased lines) and retail markets (residential and non-residential fixed access, voice traffic, leased lines). As a result, AGCom introduced regulatory measures based on the specific retail or wholesale market failure identified: access to network, carrier selection and pre-selection, transparency and non-discrimination, including publication of a reference offer, information for end users, advance notification to AGCom of new retail tariffs or of changes in existing ones, price control including cost orientation, price/network cap and price tests, cost accounting and accounting separation.

Starting from December 2007, AGCom has been carrying out the second round of relevant market analyses to determine whether to maintain, amend or withdraw the current obligations on Telecom Italia. In addition, a re-assessment of the markets not included in the revised Recommendation (with remedies in place) has been carried out to justify either the withdrawal or the keeping of regulation. In 2008-2009, AGCom concluded the market analyses of the wholesale mobile markets (call termination, access and call origination). AGCom did not review the international roaming market, directly applying the EU regulation. Market analyses proceedings, for the fixed markets, were completed in 2010.

With Decision 670/10/CONS of December, 2010, AGCom started the third round of market analyses reviewing the mobile termination market to define the relevant market, identifying SMP Operators and setting regulatory obligations on SMP Operators. The final decision was published on November 2011 (Decision 621/11/CONS) containing the new glide path for Mobile Termination Rates ("MTRs") for the period from July 1, 2012 to July 1, 2013. The market analysis on SMS termination rates is still in progress (for further detail see "Mobile Markets" below).

The main developments regarding markets in the electronic communications sector that occurred in 2011 and in the first quarter of 2012 are described below.

#### ● **Retail-fixed markets**

As a result of the first round of fixed retail market analyses, AGCom identified Telecom Italia as SMP operator and imposed regulatory obligations, including a price cap mechanism and price control.

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

At the end of 2009, AGCom concluded the second round of the assessment of **the international calls market** and of the minimum **set leased lines market** and deregulated both markets withdrawing all *ex ante* obligations on Telecom Italia starting from 2010.

In 2010 AGCom concluded the second analysis of the **national retail fixed voice services**. As a consequence, AGCom decided to withdraw all regulatory obligations starting from six months after the publication of its final decision. In the transitional six-month period (until January 12, 2011), AGCom maintained the obligation of prior notification of new tariffs. However, Telecom Italia remains subject to an ex-post evaluation of the retail offers. Since January 12, 2011 Telecom Italia has been allowed to fix retail tariffs without prior notification to or approval by AGCom.

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With reference to the **price test methodology**, with Decision 499/10/CONS dated September 13, 2010, AGCom set new rules for the assessment of Telecom Italia's retail offers, including non-standard offers (public tender and tailored top business offers) and bundles (multiple-play offers). The new methodology is based on a replicability test developed on the basis of the following key principles: (i) a single replicability test valid for offers commercialized in different (both traditional and innovative) contexts, reference to the most efficient technology and network architecture that could be used by ANOs to replicate Telecom Italia's offers and, hence, to a combination of wholesale inputs (ULL, WLR, bitstream, etc.); (ii) the evaluation of network and downstream ANOs' costs on the basis of avoidable or long run incremental costs; (iii) application of the price test to the whole bundle, taking into account the overall cost of provisioning without considering whether each component of the bundle may be replicated by an alternative operator; (iv) *ad hoc* assessment of offers within tenders, taking into account the most efficient network architecture that could be used by ANOs to compete in a specific context. Following the publication of the AGCom document "Circolare Attuativa" (July 8, 2011), AGCom launched a preliminary assessment on the implementation of the rules provided for in Decision 499/10/CONS.

Starting from July 1, 2011, a new pricing measure for fixed line national calls entered into force. In the consumer market, the so called "Ora Gratis" for local calls and the "Mezz'Ora Gratis" for national calls have been removed; flat rates (no longer differentiated by time) were, therefore, introduced in order to simplify the offer. The new prices are 0.71 eurocents/minute (VAT included) for local calls and 5.04 eurocents/minute (VAT included) for national calls. For both types of traffic, the connection fee value, equal to 7.94 eurocents (VAT included), remains the same. In the business market, the "Ora Gratis" for local calls was also abolished (to remind that for this customer type the inter-district "Mezz'Ora Gratis" was never applied), while the prices of local and national calls remained unchanged.

Finally, no changes have been introduced for fixed-to-mobile call fees for residential and business customers, following the reduction of wholesale termination fees (for further details see "Mobile market") implemented from July 1, 2011 (in particular, H3G termination fee decreased from 9 to 6.3 eurocents/min, Wind from 7.2 to 5.3 eurocents/min and TI and Vodafone from 6.6 to 5.3 eurocents/min).

In 2009, AGCom also concluded the second round of analyses for retail and wholesale access markets. Following the analysis of the markets, AGCom found a lack of competition and designated Telecom Italia as SMP. In December 2009, AGCom issued the Decision 731/09/CONS providing for the remedies to be imposed on Telecom Italia, including Telecom Italia's Undertakings.

As to the **retail access market**, AGCom reduced regulatory constraints removing, starting from 2010, the price cap mechanism used to control residential and business subscriber monthly fees, now subject only to a price test (see above for details), in order to ensure replicability by an efficient operator. At the same time, AGCom maintained the obligation to notify prices and conditions 30 days in advance of the commercial launch (instead of the previous 60 days), but a clause of "tacit consent" at the end of the notice period was introduced. As for bundling services, the previous prohibition has been withdrawn as a consequence of the increased demand for Telecom Italia's WLR offer.

Starting from July 1, 2011, an increase of the RTG Consumers monthly fee entered into force (from 16.08 euros/month, VAT included, to 16.64 euros/month, VAT included). Previous adjustment of the Consumers' monthly fee was made on 1 February 2009. However, the value of the ISDN monthly fee and of all Business connections' monthly fees was not changed.

With the aim to ensure the start-up of Telecom Italia's commercial **optical fiber retail offers**, in the transitional period for the completion of the NGAN (Next Generation Access Network) regulatory path (see "Wholesale fixed markets" for details), the Authority, with Decision 61/11/CONS, conditioned the authorisation for the launch of Telecom Italia's retail offer on the following: (i) the service should be offered only in towns where comparable offers by other alternative operators were already in place (Milan, Rome, Turin, Naples, Genoa, Bari, Bologna); (ii) the maximum number of Telecom Italia connectable customers' premises shall be set at a threshold of 40.000 units; and (iii) provision of a wholesale ultrabroadband offer whose price is based on the retail price reduced by a given percentage (*retail minus* approach).



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## ● Wholesale fixed markets

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

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

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

Following the conclusion of the second round of market analyses of the **wholesale access market**, in December 2009, AGCom confirmed the current regulatory regime applicable to wholesale access obligations on copper infrastructure (unbundling and bitstream), whereas, with regard to price setting, for the period May 1, 2010 to December 31, 2012 a network cap mechanism based on a Bottom-Up Long-Run Incremental Cost ("**BU-LRIC**") model was re-introduced. Following the adoption of the above-mentioned cost model, in November 2010 with Decision 578/10/CONS, AGCom set new wholesale rates for the following wholesale services: unbundling, bitstream and WLR and the value of WACC related to wholesale access services to be applied from May 2010 to December 2012. The WACC was set at a value equal to 9.36%. As to the unbundling service monthly fee, AGCom set the following monthly values: €8.70/month as of May 1, 2010; €9.02/month as of January 1, 2011; and €9.28/month as of January 1, 2012. The increases in the unbundling monthly fee and in other wholesale services for the 2011-2012 periods have been, however, conditioned on the assessment, by the Authority, of the parameters related to network quality improvement and to the updating of Telecom Italia's access network. Following evaluation by an external auditor, AGCom's assessments was positive and, therefore, Telecom Italia has been allowed to increase the intended wholesale price.

Referring to the **WLR service**, AGCom maintained on Telecom Italia the obligation to provide the service, only in the areas where disaggregated access services are not offered. The price for the service is calculated according to the network cap method, for the period from May 1, 2010 to December 31, 2012, based on a BU-LRIC model (see above), instead of the previous retail-minus regime. In compliance with Decision 578/10/CONS, on April 11, 2011 Telecom Italia published the 2011 economic conditions for the WLR service: the monthly fee was set at 12.50 euro/month for residential customers and at 14.87 euro/month for business customers. Starting from the year 2012, the WLR monthly fees for residential and business customers have been levelled at a price equal to 12.88 euro/month.

In November 2010, within the analysis of the wholesale access market, AGCom introduced obligations related to the access to NGAN infrastructures and, in particular, introduced the access obligation to ducts and dark fibre at "fair and reasonable" prices under AGCom supervision and the bitstream access on "Fibre To The x" ("**FTTx**"). AGCom further announced the launch of a dedicated proceeding on NGAN regulation. On September 20, 2010, the EC adopted a Recommendation on NGAN regulation. A new regulatory model was proposed where NRAs were asked to take into proper consideration the differences in competitive conditions within different geographical areas in order to assess whether the definition of sub-national geographical markets or the imposition of differentiated remedies were warranted. On September 23, 2010, with Decision 498/10/CONS, AGCom started the process leading to the regulation of the next generation network access services. Subsequently, in January and May 2011, the Authority launched two public consultations on the new regulatory regime for the access to new generation networks. With Decision 1/12/CONS dated January 18, 2012, the Authority published its final decision, which does not provide for an explicit fibre unbundling obligation at the exchange level on Telecom Italia. Furthermore, the obligation to provide an "end to end" dark fibre service between Telecom Italia's exchanges and the final customer's premises has been confirmed, even though its scope has been reduced by conditioning requests for service by alternative operators related to Telecom Italia's NGAN investment plan to the "reasonable and proportionality" principle. As to the pricing of the bitstream service over fibre, AGCom confirmed

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the geographic scope of the cost orientation obligation only for the NGAN “non-competitive” areas. Furthermore, AGCom cut down to only 60 days the period between the publication of the Reference Offer for bitstream services over fibre and the subsequent launch of Telecom Italia’s retail offers. In February 2012, AGCom opened three proceedings for the completion of the NGAN rules aimed at introducing: 1) cost model for the pricing of passive and active wholesale services and the definition of the competitive areas for the geographic price differentiation of bitstream services; 2) the prospective enforcement of symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segments; and 3) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on “Fiber To The Cabinet—Very High-speed Digital Subscriber Line” (“**FTTCab-VDSL**”) accesses.

With respect to **migration between operators**, AGCom revised fixed-line customer migration rules, substantially reducing the processing times (reduced to five days as of March 2010) for the donating operator to verify the recipient’s migration request (so called “Phase 2”). Moreover, in cases where migration is not requested, the user will have the right to restore, free of charge, the previous configuration within five working days. Furthermore, in order to prevent activation of service not requested by retail customers fixed-line operators introduced (starting from February 2011) an individual security code provided to the customer when they sign the contract for the access service. Finally, with Decision 62/11/CIR, published on July 2011, the daily capacity of each operator for the migration order management has been increased by 60%.

With reference to **fixed call termination and origination**, AGCom concluded the second round of market analyses in April 2010. The final Decision 179/10/CONS postponed the development of the BU-LRIC model, recommended by the European Commission, and provided new wholesale tariffs for years 2010 and 2011. The Decision stated that prices would be defined at an efficient cost level on the basis of cost accounting data. All the prices provided for call origination were set equal to the ones for call termination. AGCom also confirmed its previous decision to impose infrastructure-based alternative operators Fixed Termination Rates (“**FTR**”) equal to Telecom Italia’s termination charge at the transit exchange level (“**SGT**”) as of July 1, 2010. In April 2011, AGCom adopted final Decision 229/11/CONS on fixed interconnection charges from July 1, 2011 to the end of 2013. In particular, as regards the FTRs of both Telecom Italia and ANOs having SMP, AGCom set 2011 prices at the same level as 2010, therefore maintaining ANOs’ asymmetric prices equal to Telecom Italia’s termination charge for the SGT level. Moreover, AGCom decided to defer to the year 2012 the application of symmetric termination fares, equal to Telecom Italia’s tariff at local exchange level (“**SGU**”), among the infrastructure alternative operators and Telecom Italia itself. AGCom, finally, decided that, starting from the year 2013, only IP termination would be regulated, with a single symmetric tariff for Telecom Italia and for other fixed network operators, resulting from the BU-LRIC model to be developed consistently with the EU Recommendation 2009/396/EC on termination rates. Last December, the Lazio Regional Administrative Court accepted Telecom Italia’s appeal for the unjustified lack of FTR symmetry between Telecom Italia’s and ANOs’ rates at local level (SGU) for the second half of 2010 and 2011; at the same time, Lazio Regional Administrative Court rejected the ANOs appeals against FTR symmetry at SGU level starting from January 1, 2012. AGCom and the ANOs appealed against the Lazio Regional Administrative Court decision before the Upper Administrative Court. The hearing took place on March 30, 2012 and the Upper Administrative Court ruling should be issued within the end of June 2012. Should the Upper Administrative Court confirm Lazio Regional Administrative Court decisions, AGCom shall open a new proceeding to set the ANO’s second half of 2010 and 2011 termination rates following the new procedure laid down by Art. 7 and Art. 7a of the amended Framework Directive.

Concerning **transit services**, in April 2010, AGCom identified two markets: (i) local conveyance and transit market (which includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service) and (ii) national conveyance and transit market (including transit services between two or more switches located in different telephone districts, also when provided jointly with the originating or terminating service). While the regulation for the national conveyance and transit service markets has been withdrawn, AGCom maintained the regulation for the local conveyance and transit market.

Regarding the wholesale markets for **trunk segments of leased lines** and for **terminating segments of leased lines**, AGCom, in January 2010, stated that the market for trunk services was competitive and removed all ex-ante obligations. As to the terminating services market, AGCom identified the following two separate markets: (i) circuits provided between a Telecom Italia node and end user’s premises (market A); and (ii) circuits provided

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between a Telecom Italia node and a mobile operator's base station (market B). AGCom decided to deregulate market B, removing existing ex ante obligations starting from 31 December 2010. On the other side, AGCom identified Telecom Italia as SMP in Market A and imposed a network cap for the years 2010-2012.

### ● Mobile markets

AGCom concluded the second round of analyses of the mobile markets in the years 2008-2009.

In February 2009, AGCom confirmed that the wholesale market for access and call origination on mobile networks should not be subject to ex-ante regulation.

With respect to the wholesale market for voice call termination on mobile networks, AGCom decided in November 2008 a four year gradual decline in tariffs, setting the Maximum Termination Rate ("MTR") for each SMP mobile network operator and the elimination of the current asymmetry enjoyed by the third entrant in 2011 (5.3 eurocents/min) and by the last entrant in 2012 (4.5 eurocents/min).

Subsequently, AGCom developed a new cost model for MTRs taking into account the May 2009 EU Recommendation on the regulation of termination rates. The new cost model was used in the third round of market review, launched with Decision 670/10/CONS, in order to update the values of the glide path (multiyear mechanism of price control) set for mobile termination rates.

In November 2011, AGCom published its final decision on wholesale prices for voice call termination on individual mobile networks (Decision 621/11/CONS). The new glide path, based on half-monthly (instead of annual) variations, starts from July 1, 2012 and will expire on July 1, 2013 with the coming into force of a symmetric termination rate for all mobile operators (0.98 eurocents/minute).

Mobile networks vocal termination eurocents/min.	Prices applied from 7.1.2011	New glide path		
		from 7.1.2012	from 1.1.2013	from 7.1.2013
Termination on H3G network .....	6.3	3.5	1.7	0.98
Termination on TI, Vodafone and Wind networks .....	5.3	2.5	1.5	0.98

Meanwhile, starting from July 1, 2011, wholesale termination fees were decreased following the decision on MTRs adopted at the end of the second round market analysis (in particular, H3G fees decreased from 9 to 6.3 eurocents/min, Wind from 7.2 to 5.3 eurocents/min and Telecom Italia and Vodafone from 6.6 to 5.3 eurocents/min).

Concerning SMS termination prices, currently set on commercial basis and based on reciprocity among operators, a public consultation is ongoing. In a November 2011 decision on the wholesale market for mobile call termination, AGCom envisaged an analysis of this market to assess whether competitive problems exist. The timing of an eventual draft decision has not yet been communicated.

### **Mobile Number Portability (MNP)**

On January 7, 2011 AGCom published Decision 147/11/CIR on "Amendment to the regulations on mobile number portability". The Decision, among other things, provides that:

- Mobile Number Portability ("MNP") should be set up within 8.30 a.m. of the second working day following input of the customer's request in the recipient operator's systems;
- from January 1, 2013, the recipient operator must refund the customer, upon request, in case of delays in the activation of the MNP, for a minimum of 2.5 euros for each working day of delay, up to a maximum of 50 euros. The refund is not due for delays up to two working days; for delays over two working days, the refund calculation takes into account all the days late including the first two; and
- the data of the customers who request the MNP activation is to be treated by the donating operator with the utmost confidentiality and used only for the activation of the service.

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### ***International roaming***

The EC Regulation on international roaming, approved by the European Parliament and the Council in June 2007 (CE 717/2007), introduced the following measures for roaming calls within the EU (extended to European Economic Area countries), for a three year period:

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

In June 2009, the EU Parliament and Council adopted a new Regulation (CE 544/2009) which provided for further progressive reductions of prices for voice call (retail and wholesale) and set maximum prices for SMS (at retail and wholesale level) and data (at wholesale level), to be applied within the 27 Member States as of July 2009. The new regulation also provided for stricter transparency obligations on data (retail) such as the introduction of a cut off limit, from March 2010, in order to prevent "bill shock". Since July 2010, customers have the cut-off limit by default (prior to July 2010 it was based on an "opt-in" model). The above new Regulation applies until summer 2012.

On July 6, 2011, the European Commission published the proposal for the "Roaming III" Regulation to be implemented starting from July 1, 2012. The proposal has been submitted to the European Parliament and the EU Council of Ministries approval under the so-called co-decision procedure; on March 27, 2012 an agreement was reached on a compromise text that is expected to be approved by June 2012. The regulation provides:

- (a) the extension of retail (up to the year 2017) and wholesale caps (up to the year 2022) on voice roaming services, SMS and intra-EU data;
- (b) the decoupling of roaming offers from national offers (from 2014), allowing customers to buy roaming offers from a different provider than the one providing national services; and
- (c) the obligation for mobile operators to provide wholesale roaming access at regulated prices.

### ***Long Term Evolution ("LTE") Frequencies***

The so-called "digital dividend" is the allocation of a portion of the broadcasting frequency band to other telecommunication services. AGCom published guidelines for the frequency national plan aiming at fostering the release of the digital dividend band (as required by the European Commission Recommendation 2009/848/EC of October 28, 2009) at present allocated to a large number of local broadcasters (about 600).

On December 7, 2010, following the approval of the 2011 Financial Bill, ACGom and the Ministry for the Economic Development—Communications Department launched the process to award, by means of a tender, radio frequencies' rights of use to be assigned to broadband mobile electronic communication services.

On June 10, 2011, AGCom published the Decision 282/11/CONS regulating the procedures aiming at issuing the 800, 1800, 2000 and 2600 MHz frequencies' rights of use. Finally, in the Official Journal n. 75 dated June 27, 2011 the Ministry for the Economic Development published the "Invitation to Tender" for the award of the frequencies' rights of use.

The minimum tender rates for the each frequency lot were as follows:

<b>BAND</b>	<b>Minimum rate per lot (in euros)</b>
800 – FDD .....	353,303,732.16
1800 – FDD .....	155,869,293.60
2000 – TDD .....	77,934,646.80
2600 – FDD .....	30,668,726.75
2600 – TDD .....	36,802,472.10

The Ministry for the Economic Development granted Telecom Italia the right to file offers for the use of frequencies.

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The tender was launched on August 31, 2011 and was closed on September 29, 2011. On October 3, 2011, the Ministry for the Economic Development—Communications Department awarded Telecom Italia two 2x5 MHz standard blocks at 800 MHz each, a 2x5 MHz block at 1800 MHz and three 2x5 MHz standard blocks at 2600 MHz each. Telecom Italia's total investment amounts to 1,223 million euros, net of a 38 million euros discount due to Telecom Italia's commitment to implement the new networks using more than 50% environmental sustainable equipments. Given this discount, a specific credit guarantee was set up.

On November 3, 2011, Telecom Italia told the Ministry that:

- the 767 million euros contribution for the award of the above-mentioned frequency blocks was paid;
- a 5 year guarantee for 456 million euros had been created following the request to pay the rest of the amount in instalments.

On December 15, 2011, Telecom Italia requested that the Ministry grant authorisation to start trials for LTE service on the 800, 1800 and 2600 MHz bands. Following the request by Telecom Italia and by other mobile operators, the Ministry set up a Technical Table for the release of 800 and 2600 MHz bands by, respectively, local television broadcasting operators and the Ministry of Defence.

The rights of use, formally awarded by the Ministry on October 3, 2011, were allocated on February 2012.

### ***Numbering plan***

AGCom decided in December 2010 that the rights of use of mobile numbering is to be extended to Mobile Virtual Operators ("MVOs"). In addition, considering the possible new numbering resources needed, should the future MVO numbers significantly increase, AGCom decided to modify, by 2012, existing end users' mobile number codes and Mobile Number Portability routing number codes bringing them from 3 digits to 4 digits with relevant technical and economical impacts on infrastructure network operators.

In January 2012, AGCom launched a public consultation (closed in February 2012) proposing a revision of National Numbering Plan ("NNP"). The main proposals, as to the draft decision, concern the mobile numbering structure evolution, the update of the premium services price ceiling and a new numbering block for SMS/MMS corporate services.

Due to the relevant impacts of the proposed revision of the current mobile numbering plan, a proposal has been jointly raised by the main national mobile operators to find possible solutions aiming at balancing the market needs for new mobile numbering resources to the benefit of MVOs with the impacts on the current mobile numbering structure and on mobile operators.

The final AGCom decision on NNP regulation is expected by the end of May 2012.

### ***Quality of services of broadband internet access at fixed location***

In November 2008, AGCom issued a decision stating that operators shall provide information about the service level of internet access services at a fixed location:

- operators shall state their minimum standards of service quality (including the minimum connection speed) and other information about the characteristics of the access. Subscribers can terminate their contract if the quality of their connection is below the claimed minimum standards; and,
- operators shall undertake statistical measurements at regional level (for example speed data transmission; rate of failure in data transmission; rate of packet loss). At present, this activity has been taken in ten regions and will be gradually extended to all 20 Italian regions.

In the autumn of 2010, AGCom launched a tool allowing customers to measure the quality of their broadband connections.

The AGCom decision finally introduces a *super-partes* agency verifying operators' measurements.



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### ***Quality of services of broadband internet access at mobile location***

In February 2011, AGCom launched a working group aiming at raising suggestions on how to regulate the quality of mobile broadband access lines services.

The working group defined the statistical measurements to be made, through drive test, every six months in the main cities of all the Italian regions. The first year measurement campaign should end before summer 2012 and the results should be available by September 2012.

### ***Universal Service***

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

A fund, set up by the Ministry of Communications, is used to contribute to finance the net cost for the provision of Universal Service. All the companies in the sector including Telecom Italia contribute to the above fund.

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 obligation of providing the Universal Service and the net cost of the same operation should the obligation not exist. It is AGCom's responsibility to verify the net cost of the Universal Service.

In March 2008, AGCom published a Decision introducing a new method of calculating the net cost. Such a calculation affects credits related to the Universal Service net cost for the years 2004, 2005 and 2006 which have been re-calculated and submitted to AGCom under the new terms.

With Decision 153/11/CIR, AGCom assessed the 2004 net cost for universal service. The Authority decided the applicability of the sharing mechanism and estimated the net cost for the year 2004 was 25.9 million euros. The contribution rate due to other operators amounts to 8.7 million euros.

The net cost of providing Universal Service 2005 is undergoing an auditing procedure and the net cost calculations for years 2006/2010 have been delivered to AGCom. Therefore Telecom Italia is fully compliant with the accounting obligations regarding the net cost of Universal Service.

Since the issue implies contributions from other operators AGCom's proceedings aimed at defining the operators' contribution to the fund are highly controversial. Notwithstanding the disputes on the issue, Telecom Italia continues ensuring the provision of Universal Services accordingly to the USO rules defined by AGCom.

### ***Public Telephony***

In April 2010 AGCom confirmed that the criteria regarding the distribution of public telephones on the national territory was no longer consistent with current social needs and removed "quantitative" obligations for Telecom Italia. As a result, Telecom Italia was authorised to remove up to 30,000 public telephones per year after consultation with local municipalities and interested citizens. In 2010, approximately 7,500 public telephones were therefore removed while the number of public phones removed in 2011 amounted to around 10,000 bringing the total number of public telephones in place to 97,736.

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

SMP operators are required to have a transparent accounting system as to their costs. These operators shall provide AGCom annually with both a description and a report on their cost accounting system to assess their compliance with the provisions of the electronic telecommunications regulatory framework. Moreover, SMP fixed and mobile operators must keep a separate accounting system separating the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic market analyses.

The "rules" on regulatory accounting in Italy are set in accordance with EC Recommendations, particularly with Recommendation on "Cost Accounting and Accounting Separation", issued on September 2005.

Changes in the regulation on cost accounting and accounting separation follow periodical market analyses.

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The rate of return on capital employed was set by the AGCom at 9.36% nominal pre-tax with Decision 578/10/CONS in December 2010.

Since 2008 the regulatory asset base includes Telecom Italia's goodwill.

During the first half of 2011, the independent auditors appointed by AGCom to review Telecom Italia's accounting separation of the fixed network services for the years 2008 and 2009 completed their audit and delivered the requested audit reports to AGCom. Reports of the auditor are approved by means of an AGCom decision; regulatory accounts and accounting methodology are published also by Telecom Italia on its website.

The audited regulatory accounting reports and the methodology for the years 2005, 2006 and 2007 are public and available on Telecom Italia's website.

The regulatory accounting report for the year 2010 was delivered to AGCom in 2011 in compliance with the law and with AGCom's Decisions.

Public consultation issued by AGCom on new accounting rules regarding internal contracts, transfer charges and further reporting requirements aimed at complying with the "equivalence" principle is concluded. The AGCom final decision was issued in December 2011; after a trial period, the new regulatory accounting requirements will be applied in 2011 regulatory accounting process to be delivered in 2012.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

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

In connection with AGCom's second round on market analyses concerning the "market for the termination of voice calls on individual mobile networks", AGCom requested SMP operators to produce economic and quantitative data related to regulatory accounting methodologies for the purpose of setting new network cap values. Consultation on the main assumptions of Mobile LRIC model was closed in November 2010.

During the year 2011:

- auditing activities regarding accounts at historical costs for the year 2009 ended in April 2011;
- regulatory accounting report for the year 2010 was delivered to AGCom in 2011 in compliance with the law and with AGCom's Decisions;
- with Decision n. 254/11/CONS, AGCom started a new round of market analyses and stated a new glide path for MTRs for the 2012-2015 period;
- with Decision n. 621/11/CONS, AGCom:
  - (A) Updated the glide path in three steps: 07/01/2012, 01/01/2013 and 07/01/2013 in order to speed up the process towards symmetric rates.
  - (B) Pointed out (clarified) that rules to be applied for regulatory accounting are those stated by Decisions n. 667/08/CONS and n. 60/11/CONS.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

#### ***AGCom fee 2011-2012***

In January 2011, AGCom carried out an assessment of the compliance by Telecom Italia and all other companies with respect to their obligation to pay annual fees to the Authority for the years 2006, 2007, 2008, 2009, 2010. On March 1, 2011, with Decision 99/11/CONS, the Authority notified Telecom Italia of its conclusions that the Company had not fully paid its operating expenses due for the relevant period, listing additional accounting items which, in its opinion, should have been included in the cost basis used to make the calculation. Telecom Italia was therefore forced by AGCom to pay an extra sum for amounts not paid in the five years 2006-2010. Telecom Italia appealed this decision with the Lazio Regional Administrative Court which suspended the terms of the payment until the end of the proceeding.

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On March 3, 2011, AGCom published the Decision 599/10/CONS on the payment of the annual fee for the year 2011 with which the Authority raised the contribution share from 1.5‰ to 1.8‰ of 2009 communications sector revenues. On April 30, 2011, Telecom Italia paid (with reservation) an amount equal to 24.2 million euros, calculated consistently with the reasoning on which the appeal against Decision 99/11/CONS was based and, at the same time, contested Decision 599/10/CONS with the Lazio Regional Administrative Court in relation both to the increase in the level of the contribution and to the broadening of the accounting items to be considered in the cost basis.

As regards the two appeals filed by the Company and the relevant rulings issued on December 13, 2011, two orders have been published by the II Section of the Lazio Regional Administrative Court. These orders suspended the above-mentioned rulings and referred to the EU Court of Justice a preliminary question, i.e. the assessment of AGCom's national financing system consistency with the principles deriving from the EU sectorial Directives.

On March 28, 2012, AGCom published Decision n. 650/11/CONS on the payment of the fee for the year 2012, setting the calculation methodology on 2.0‰ of 2010 revenues of the communications sector. On April 30, 2012, Telecom Italia paid (with reservation) an amount equal to 23.0 million euros and plans to contest Decision 650/11/CONS with the Lazio Regional Administrative Court.

### ***Broadband and digital divide***

Over the last few years, AGCom introduced several measures aimed at endorsing the development of fixed and mobile broadband through the provision of simplified procedures to deploy the relevant networks.

Particularly important in this respect is the Decree Law n. 40/2010, enacted by Law n. 73/10, introducing:

- a lighter authorization procedure for the deployment of broadband mobile equipments; and,
- simplified rules for the use of innovative digging techniques (mini-trench) for the deployment of optical fiber equipments.

In 2010 the simplification process also affected the authorization procedure for the deployment of electronic communication equipments in areas under landscape restrictions. In fact, since half of Italy is considered as protected area ("*area di conservazione*"), provisions aiming at accelerating digging authorisations are important levers for broadband expansion throughout the country.

Finally the Decree Law 98/2011, enacted by Law n. 111/2011 has further simplified the administrative procedure for the expansion of small mobile equipment (0.5 sq. area) and of low power equipments (7 watt). The deployment of mobile equipment falling within the above-mentioned thresholds was actually exempted from the DIA regime ("*Denuncia di Inizio Attività*"—"Commencement Notice") previously provided for by the Electronic Communications Code and subject to a simple notification, to be made at the time of commencement of the works.

### **4.3.2 PRIVACY AND DATA PROTECTION**

Telecom Italia must comply with Italy's data protection code (Legislative Decree June 30, 2003 n. 196), which came into force on January 1, 2004.

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

The code applies to all data processing within Italy and also affects organisations not being based in Italy but using equipment located in Italy, such as computer-based systems.

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

The "data subject" (any natural person that is the subject of the personal data) and the "subscriber" (any natural or legal person who or which is party to a contract with the provider of publicly available electronic communications services, or is the recipient of such services by means of pre-paid cards) shall receive a preliminary information on the purposes and modalities of data processing. Consent of the data subject is necessary to process personal data, except in specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.



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### ***Italy's Privacy Provisions Related to Specific Processing Operations in the Electronic Communications Sector***

The above mentioned code has implemented the provisions contained in the E-Privacy Directive of the European Union (Directive 58/2002).

When data retention is concerned, communications service providers ("**CSPs**") are allowed 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 electronic communications traffic data for the purpose of detecting and preventing crimes. In 2008, data retention terms were significantly reduced. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

Traffic data must be kept and controlled in compliance with general provisions issued by the Italian Privacy Authority ("**Garante per la protezione dei dati personali**"), which requires TLC operators to adopt strict security measures.

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

Concerning direct marketing activities, the data protection code allows the processing of personal data obtained from directories of subscribers, in order to carry out operator-assisted telephone calls for commercial purposes. Such processing is possible unless the entity that entered its respective telephone numbers in a public "opt-out register", which came into force on February 1, 2011.

### **4.3.3 ANTITRUST IN ITALY**

#### ***Legislation on competition***

Telecom Italia is subject to Italian competition law.

Law October 10, 1990 n. 287 ("Provisions aiming at protecting competition and the market") set up the *Autorità Garante della Concorrenza e del Mercato*, or "Antitrust Authority".

The Antitrust Authority is responsible for:

- (i) applying Law 287/1990 and supervising: (a) restrictive agreements; (b) abuses of a dominant position; and (c) concentrations of enterprises;
- (ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e., Articles 101 and 102 of the Treaty on the Functioning of the European Union);
- (iii) applying Legislative Decree September 6, 2005 n. 206 concerning unfair commercial practices; and,
- (iv) monitoring conflicts of interest in the case of individuals holding government positions.

In addition, Articles 14-bis and 14-ter of Law 287 of 1990 (introduced by Law 248/06) provide that the Antitrust Authority may (i) adopt interim measures; and (ii) enforce commitments binding upon the proposing parties in order to dispel identified anticompetitive concerns closing the investigation without any finding of a violation.

#### ***Antitrust Proceedings A426 and A428***

Please see Note "Contingent liabilities, Other information, Commitments and Guarantees" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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#### 4.3.4 TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL

Telecom Italia Group's operations in Brazil are subject to the 1997 General Law on Telecommunications (Lei Geral de Telecomunicações—"LGT") and to a comprehensive regulatory framework for the provision of telecommunications services adopted by the Regulatory Agency for Telecommunications—Agência Nacional de Telecomunicações ("ANATEL").

ANATEL is responsible for the regulation and implementation of national policies in matter of telecommunications. It is a quasi-independent body (the relationship with the Ministry of Communication is institutional, but not hierarchical) enjoying financial and operational autonomy and a wide range of functions and powers, to ensure competition and to avoid concentration of services. The board members have a fixed term, are selected and appointed by the President under approval by the Senate.

ANATEL has the power to impose restrictions, limitations or conditions on concessions, permits or authorizations. ANATEL has the authority to propose and issue legally binding regulations on telecommunications service providers. The rules issued by ANATEL are subject to periodic updates. Any proposed regulation or action by ANATEL is subject to a period of public consultation, which may include public hearings, and can be challenged in Brazilian courts.

ANATEL privatized the former public monopolistic operator and progressively opened the market to competition, in addition to promoting universal access to basic telecommunications services.

With regard to the operational activity of TIM, Intelig and TIM Fiber, ANATEL developed regulations for mobile communication services ("SMP"—Personal Mobile Services), fixed communications services ("STFC") and data transmission and multimedia services ("SCM").

In October 2008, ANATEL approved the proposed "General Update Plan in Telecommunications Regulation" ("PGR") aiming at planning the actions to be promoted by ANATEL for the next ten years, in order to update the regulation of telecommunications in Brazil. Implementation of the Local Loop Unbundling and Virtual Mobile Operators were included in the expected short-term actions by the PGR.

Number portability was introduced in Brazil beginning in September 2008 and became fully operational in March 2009.

The exploitation of mobile services by Mobile Virtual Operators, based on commercial agreements between established operators and virtual operators was introduced in 2010.

#### **Authorizations**

ANATEL carried out the privatization of the former public monopoly operator and gradually opened the sector to competition, in addition to fostering universal access to basic telecom services. According to the General Telecommunications Law and to the regulations issued by ANATEL, licenses to provide telecommunications services are granted either under the public regime, by means of a Concession or a Permission, or under the private regime, by means of an Authorization. Only certain fixed-line service providers are currently operating under the public regime (Telefonica, Embratel and Oi, commonly referred to as "Concessionaires"). All the other telecommunications services providers in Brazil are currently operating under the private regime, including all the mobile and data service providers.

Since the launch of GSM mobile services in 2002, four main players operate in the mobile market (Claro, Vivo, Oi and TIM) and compete nationwide. Third generation services deployment started in 2008.

The authorizations for fixed and mobile services give the Telecom Italia Group (which operate under the brand names TIM, TIM Fiber and Intelig) coverage of the entire Brazil allowing to provide fixed, mobile, long distance and multimedia services.

According to Brazilian law, Internet access is considered a value-added service, and providers of Internet services are not considered to be telecommunications operators. The rules require that all telecommunications services'

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operators allow network access to any interested party to provide value-added services, without discrimination, unless technically impossible. The voice service providers can also provide value-added service through their own networks.

### ***Interconnection rules***

Telecommunication operators must publish a public interconnection offer highlighting both economic and technical conditions and are subject to the “General Interconnection Regulatory Framework” enforced by ANATEL in 2005.

The interconnection charges for fixed network (“**TU-RL**”) amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20% the one applied by the incumbents.

The values of mobile interconnection rates (“**VU-M**”) are freely negotiated by operators. The National Regulatory Authority has, however, arbitration power in case of disagreement being able to determine a reference value according to criterion set up by regulation.

Interconnection agreements are subject to prior approval by ANATEL.

### ***Main regulatory developments***

**National Broadband Plan:** in May 2010, the Brazilian government approved a National Broadband Programme to extend national broadband coverage by 2014. The plan includes the reactivation of Telebras, responsible for managing and operating a national fibre network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of “entry level” broadband residential connections.

Other measures in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries.

**Fixed Termination Rates:** On February 11, 2011, ANATEL launched a consultation on the revision of the current regulation on fixed interconnection charges. ANATEL proposes, amongst other measures, to:

- withdraw asymmetry of FTRs currently enjoyed by non SMP operators (these operators are allowed a 20% mark up over SMP operators’ FTRs); and
- apply local interconnection rates in case of a traffic unbalance of at least 75% of traffic exchanged amongst public switched telecommunications service operators (the current threshold is 50%). Below that threshold a system of “bill and keep” applies.

The timing for the final adoption of the revised regulation is undefined.

**Leased Lines:** up to March 18, 2011, ANATEL consulted interested parties on a proposal to review existing wholesale leased lines regulation. The aim of the proposal is to improve wholesale leased lines supply and, ultimately, foster competition in fixed retail markets by imposing:

- more stringent obligations on SMP operators to make available and provide leased lines to third party operators (including “Service Level Agreements”—“**SLAs**”—and penalties for non-compliance); and
- improved enforcement mechanisms.

The timing for the final adoption of the revised regulation is undefined.

**General Competition Plan (“PGMC”):** with the General Competition Target Plan the regulator (ANATEL) intends to introduce tools for market analysis in order to identify operators with market power and to consequently impose asymmetric measures. From July to October 2011, ANATEL consulted interested stakeholders on this issue.

ANATEL approach is to analyse the competition environment, and the possible existence of operators with significant power to which apply asymmetric measures, in seven relevant market: two markets at retail level

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(Origination of local calls from fixed line access; pay-TV Offer) and five at wholesale level (Access to the fixed network; Access to the mobile network; Interconnection with fixed networks; Interconnection with mobile networks; Local and national transport infrastructure) TIM Brasil should not be considered as a Significant Market Power operator in any of the seven markets as defined by ANATEL.

The final approval of the regulation is expected for the second half of 2012.

**Retail prices of Fixed to Mobile calls:** following a public consultation held in November 2010, ANATEL published a regulation imposing a glide path on fixed-mobile retail rates ("VC") for the period 2012-2014, based on a price cap system, with a 23% decrease in three years. Because of this change in the price of Fixed to Mobile calls, operators were expected to have negotiated new values of mobile termination by February 12, 2012. Since no agreement was reached, ANATEL imposed the first step of a glide path for mobile termination reducing its value by about 27% in three years.

**Cost models' implementation:** in 2005, ANATEL issued a ruling for "Accounting Separation and Cost Accounting", introducing on licence holders and groups holding significant market power in the offering of fixed and/or mobile network interconnection and wholesale leased lines ("*Exploração Industrial De Linha Dedicada*"—"EILD") the obligation to present the Accounting Separation and Allocation Document ("*Documento de Separação e Alocação de Contas*"—"DSAC"). Starting from 2006 (for fixed operators) and 2008 (for mobile operators), operators (TIM included) are providing ANATEL with the requested information.

In August 2011, ANATEL launched a project called "Modelo de Custos", setting up a consortium of consultants (Advisia, Analysys Mason, Grant Thornton) in charge of developing, within two years, the cost model for fixed and mobile networks for communications services.

By 2014, when the cost model will be available, ANATEL should have an instrument for the effective application of the obligation of cost orientation for the development of regulated wholesale services.

**Assignment of frequencies in the bands 2.5GHz and 450MHz:** in April 2012, ANATEL published the text of an invitation to tender for the allocation of radio frequencies in 2.5GHz, enabling applications like 4G based on LTE. The auction should be held by June 2012.

Together with the 2.5GHz frequencies a lot of frequencies in the range of 450MHz will be assigned. These frequencies are not of interest for mobile operators because of the absence of standards implementation. The 700MHz frequency will not, however, be available before 2016.

#### 4.3.5 TELECOMMUNICATION REGULATORY FRAMEWORK IN ARGENTINA

Telecom Argentina and Telecom Personal operate in a regulated industry. Regulation not only covers rates and service conditions, but also the terms under which various licensing and technical requirements are imposed.

Telecom Argentina's and Telecom Personal's activities are supervised and controlled by the "*Comisión Nacional de Comunicaciones*" ("CNC"), a governmental agency under the supervision of "*Secretaría de Comunicaciones*" ("SECOM"), which is embodied within the Ministry of Federal Planning, Public Investments & Services. The SECOM develops, enforces and implements policies which are applicable to telecommunications services, reviews the applicable legal regulatory framework, approves major technical plans and resolves administrative appeals filed against CNC resolutions.

The Argentinean regulatory framework is mainly featured by:

- the Privatization Regulations, including the List of Conditions and the Transfer Agreement;
- the Licenses granted to Telecom Argentina and its subsidiaries;
- the Agreements on Rates; and,
- various governmental decrees, including Decree n. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management, Public emergency law (law n. 25,561) dated January 6, 2002 (regarding, among others, rules freezing fixed telephony rates).

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### ***Regulatory Authorities abroad***

Núcleo, Telecom Personal's Paraguayan controlled company, is supervised by "*Comisión Nacional de Telecomunicaciones*" ("**CONATEL**") the National Communications Commission of Paraguay.

Telecom Argentina USA, Telecom Argentina's subsidiary, is supervised by the Federal Communications Commission ("**FCC**").

Springville SA, Telecom Personal's Uruguayan controlled company, is supervised by "*Unidad reguladora de servicios de comunicaciones*" ("**URSEC**").

### ***Authorizations***

In March 1998, the Argentinean government issued the Decree n. 264/98, introducing a plan for the liberalisation of the Argentinean telecommunications industry. The plan provided for the issuance of a reduced number of competitive licenses and liberalized basic telephony and international long-distance services.

Some provisions of the Decree and its related resolutions were amended by Decree n. 764/00. The latter Decree established a new general regulation for licenses, interconnection, Universal Services and radio- frequencies spectrum control, by which each licensed company was allowed to launch its services in November 2000 when the full liberalisation of the telecommunications market began.

This Decree established a new Regulation of Licenses based on a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international services. It also established a new Interconnection Regulation that includes the obligation to give transparent networks interconnection and to publish a "Reference Interconnection Offer" ("**RIO**") including the infrastructure elements and services that the dominant operator is required to provide. The commercial conditions for interconnection are defined by free agreement between the parts, while costs for basic interconnection elements are established in this regulation.

Since the end of the exclusivity period the Argentinean government granted a number of licenses to, among others, independent fixed line service providers, mobile and cable operators, cooperative operators, as well as individual licensees, some of which affiliated with major service providers outside Argentina.

Telecom Argentina has been granted non-expiring licenses to provide the following services in Argentina: Local fixed telephony; Public telephony; Domestic and international long-distance telephony; Domestic and international point-to-point link services; Domestic and international telex services; Value added services, data transmission, videoconferencing and broadcasting signal transport services; and Internet access.

Telecom Personal, the brand dedicated to mobile, has been granted a non-exclusive and non-expiring license to provide mobile telecommunication services.

Núcleo, in Paraguay, has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as Personal Communications Services ("**PCS**") and Internet access in specific areas of the country.

Springville S.A was acquired in April 2009 by Telecom Personal S.A. It offers mobile telephony services under the model name "Mobile Virtual Network Operator" ("**MVNO**") in Uruguay.

The main licensees providing local and/or fixed long-distance telephone services in Argentina are, among others, Telmex, Global Crossing, Comsat, IPlan, Telephone2, Telefónica (in the Northern Region) and Telecom Argentina (in the Southern Region).

### ***The freezing of rates for fixed telephony***

The "Price Cap" regime was the methodology originally applied to calculate changes in Telecom Argentina's basic services rates.

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Following the 2001 economic crisis, an Administration Act (Law 25,561) froze, from January 2002, all tariffs for fixed telephony services (provided under a concession regime by Telecom Argentina and Telefonica) and created, between 2002 and 2003, a Ministry of Finance Commission ("UNIREN"), with the task to renegotiate the rates of all public services.

In May 2004 a Memorandum of Understanding ("MoU") between the Government and each operator was agreed; the MoU maintained till December 2004 the same tariff level, and granted the continuity of other contractual rights.

In April 2006 another Memorandum of Understanding ("*Carta de Intendimiento*") was signed by operators and UNIREN with which Telecom Argentina and Telefonica gave up the lawsuit against the Law 25,561, in exchange for small rate adjustments (related to peak/off-peak and international rates) while respecting the rights and obligations arising from the concession and committing to new quality of service goals.

This agreement needed to be submitted by the Government to the Congress for its approval, but the process was suspended in 2008.

Any revisions of rates should be promoted by the Government.

### ***Main regulatory developments***

**Universal Service ("SU") Regulation.** The obligation to pay contributions to the SU is in force since January 2001, but only in December 2010 (SECOM Resolution n. 154/2010) the methodology of contribution to the Trust Fund for the Universal Service ("FFSU"), confirming the principle of "Pay or Play", has been implemented.

Under this principle, the Operators can replace the monetary contributions to fund with the provision of services under SU programmes approved by the regulator.

The Resolution also stated an obligation for operators to pay the amounts accrued to the fund from July 2007 to December 2010, recognizing the possibility of replacing past economic contributions with the provision of services covered by the SU programmes. These projects must be approved in advance by SECOM, and their enforcement must then be verified by an Audit.

For the period January 2001-June 2007, a 2011 Decision (SECOM Resolution n. 9/2011) allows all operators to submit infrastructure projects ("*Proyectos de Infraestructura in Telecomunicaciones*"), with eligible funds corresponding to their obligations of contributing to FFSU.

Telecom Argentina, providing services that fall under the Universal Service Programme, claims not having to pay contributions to FFSU. This request is still pending in front of the regulator.

Personal Telecom pays to the FFSU a monthly 1% of revenues from sales of services. The request made by Personal to compensate the funds corresponding to its obligations of contributing to FFSU for the period January 2001-June 2007, with a project based on a mobile network infrastructure, is still pending in front of Secom.

### **"Argentina Conectada" Plan**

In October 2010, the Government approved the Plan "*Argentina Conectada*" setting up a commission for the coordination of various initiatives to promote digital inclusion and broadband connectivity throughout the country.

The initial objectives of the plan are:

- the extension of broadband services to the majority of the country's locations by 2015;
- the deployment and management by Arsat (public operator that so far has offered satellite services) of a new backbone network, renting fibre from existing operators or by sharing agreements ("swaps") of optical fibre;
- the allocation of public funds to approximately 8 billion pesos (about 1.4 billion euros) within 3 years;
- the financing of broad band connectivity in schools and libraries through the Universal Service Fund.



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## Spectrum

In May 2011 a tender for the allocation of frequencies in the 1900 (band called PCS) and 850 MHz bands (i.e. "SRCM") was published. The frequencies were returned by Movistar (Telefonica Group), following the merger with Bell South in 2005 which resulted in it exceeding the limit of 50MHz (spectrum cap) applicable in each region (North, South, Greater Buenos Aires).

On February 6, 2012, according to the established schedule, Personal was permitted to participate in the frequencies auction.

The auction should start at the end of May, 2012.

## Mobile Number Portability Implementation

Mobile Number Portability was implemented starting from March 2012 as decided by SECOM; a new Data Base Administrator (ABD) was set up to track the number portability.

### 4.3.6 BROADCASTING REGULATORY FRAMEWORK IN ITALY

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

Broadcasting activity in Italy is mainly regulated by the Consolidated Act on Broadcasting (Legislative Decree July 31, 2005 n. 177), amended by Legislative Decree March 15, 2010 n. 44 (**Decree 44/10**), implementing the Audio Visual Media Services ("AVMS") Directive, which entered into force on March 30, 2010.

Decree 44/10 introduced changes in the audio-visual legislation in the areas of advertising and product placement, promotion of European works, short extracts rights, protection of minors, and extends regulation to non-linear audio-visual services.

AGCom implemented the new rules through regulation, including the adjustment of authorizations already released prior to these new rules.

On June 30, 2011, AGCom approved a new regulation (Decision 353/11/CONS) for digital terrestrial broadcasting activities (both concerning network operators and content providers). Telecom Italia Media Broadcasting contested: 1. the clause allowing local network operators to carry national TV channels, and 2. the clause extending analogue license fees (1% of income) to all digital services. This extension is in conflict with EU legislation, which establishes that administrative costs cannot be related to the size of income.

#### ***Logical Channel Numbering Plan***

Decision 366/10/CONS (July 15, 2010) contained a detailed Logical Channel Numbering ("LCN") plan assigning Telecom Italia Media's generalist national channels—La7 and MTV—respectively numbers 7 and 8. Telecom Italia Media and MTV Italia have also obtained numbers for their digital channels (La7D and MTV Music), shifted channels, HD channels and catch up TV services, on demand and interactive services.

#### ***Switch off timetable***

After digitalisation of Sardinia in 2008 and north of Italy, Lazio and Campania in 2009, from October 10 to December 21, 2010 a complete switch off has taken place in Liguria, Toscana, Umbria and Marche. At the end of 2011 more than 80% of Italian population is *all digital*.

On December 14, 2011, the Ministry for Economic Development set the complete switch off within June 30, 2012. Starting from May 7, Abruzzi, Molise, Puglia, Basilicata, Calabria and Sicilia will complete switch-off transition by the end of June 2012.

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## Digitalization of broadcasting networks and frequencies

In response to the infringement procedure 2005/5086 filed by the EC against Italy, in June 2008 the Government passed Law n. 101, replacing the special licensing regime for digital terrestrial network operators with an authorisation regime compliant with the Code of Electronic Communications and the EU Directives.

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

The European Commission approved of the changes introduced by Law 101/08, but asked that more spectrum resources be assigned to new entrants (the “**Digital Dividend**”). In response to these further requests, AGCom set up the criteria for the complete digital conversion of the television terrestrial networks.

AGCom established the “National Plan of Assignment of the Frequencies” (“**PNAF**”) which will provide for 21 national “Digital Video Broadcasting- Terrestrial” (“**DVB-T**”) networks with 80% coverage of national territory and 4 “Digital Video Broadcasting- Handheld” (“**DVB-H**”) national Networks. Out of the 25 networks, 5 DVBT and 1 DVBH will constitute the Digital Dividend to be assigned on the basis of competitive bidding procedures.

The Ministry for Economic Development—Communication Department—assigned to the Telecom Italia Media group only 3 DVB-T Networks (out of the 4 Networks managed by the Group). Telecom Italia Media group appealed against this decision to protect its interests.

Concerning the Digital Dividend, AGCom issued a Decision on the criteria to be adopted in the tenders for the assignment of the Digital Dividend based on a beauty contest. The Digital Dividend was to be assigned in three different tenders, one consisting of 3 Networks/Muxes (Tender A) and the other of 2 Networks/Muxes (Tender B), plus a third tender for a DVB-H/DVB-T2 Network (Tender C).

Telecom Italia Media group appealed against the above decision since it treats Telecom Italia Media in a similar way to RAI and Mediaset, even if Telecom Italia Media is not an incumbent operator.

The tender for the assignment of the Digital Dividend (Beauty Contest) was issued on July 6, 2011, and on September 5 Telecom Italia Media Broadcasting (“**TIMB**”) Network Operator, submitted three different bids, 2 for Tender B and 1 for Tender C, and was admitted to all of them.

Sky Italia, admitted to tender A, on November 30, 2011 withdrew its bid.

On December 16, 2011, the new Government suspended the Beauty Contest procedure, in order to evaluate a new procedure.

On January 20, 2012 TIMB received formal communication from the Ministry for Economic Development suspending the Beauty Contest for 90 days (until April 19, 2012).

On April 16, 2012, the Government has approved a provision that cancels the Beauty Contest and establishes that frequencies will be assigned by the Ministry for the Economic Development through a bidding auction within 120 days from the approval of such provision, on the basis of criteria defined by the Italian AGCom. The provision is expected to be approved by May 2, 2012.

## PNAF and digital dividend for mobile services

In order to assign the frequencies in the digital switch off areas and for the DVB-T Digital Dividend AGCom issued a decision enforcing the National Plan of Assignment of the Frequencies.

Furthermore, this decision provided a Digital Dividend for mobile service in the band 790-862 MHz (channels 61-69 Ultra High Frequency—“**UHF**”) after the switch off of analogue broadcasting. The Italian Budget Law established that those frequencies, previously assigned to local televisions, should be used for mobile services. The tender took place in the summer 2011, with 4 billion euros revenues.

By the end of 2012 channels 61-69 will be released by local broadcasters and assigned to mobile services. 175 million euros have been allocated to compensate local broadcasters current assignee of channel 61-69 in Piemonte, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna, Lazio and Campania.



#### 4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

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

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

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

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

**ANOs (Alternative Network Operators).** Companies other than the incumbent operator which operate telecommunications systems in a national market.

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

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

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

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

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

**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.

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**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).

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

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

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

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

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

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

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

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

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

**Community.** A group of customers who have subscribed to specific offers which include special pricing for traffic towards other customers of the same telco.

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

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

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

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

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**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.

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

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

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

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

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

**Exchange.** See Switch.

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

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

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

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

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

**GPON (Gigabit capable Passive Optical Network).** A passive optical network (PON) is a network architecture that brings fiber cabling and signals to the home using a point-to-multipoint scheme that enables a single optical fiber to serve multiple premises.

**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.

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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".

**LTE (Long Term Evolution).** Represents the fourth generation (4G) mobile phone systems. LTE belongs to the standard 3GPP (Third Generation Partnership Project) and it is the latest evolution of GSM / UMTS / HSPA standard. LTE offers a higher spectral efficiency in bits per Hertz and download bandwidth up to 150 Mbit / s per cell reducing the latency time. LTE enabled services that require high interactivity (eg, gaming, video conferencing). A further development of LTE, called "LTE Advanced", will perform bitrates even higher.

**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.

**MMDS (Multichannel Multipoint Distribution Service).** Also known as Wireless Cable is a wireless telecommunications technology, used for general-purpose broadband networking or, more commonly, as an alternative method of cable television programming reception.

**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.

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**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.

**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.

**OTT (Over the Top) players.** Operators offering contents and services on the internet without owning the proprietary TLC network infrastructure.

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

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

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

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

**PCS.** Personal communications services.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**ULL (Unbundling Local Loop).** System through which ANO 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.

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

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

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

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



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

Item 4. Information On The Telecom Italia Group	Description Of Property, Plant And Equipment
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## 4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

### GENERAL

As of December 31, 2011 and 2010, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2011				As of December 31, 2010			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of euros, except percentage)							
Land .....	235	—	235	1.5	243	—	243	1.5
Civil and industrial buildings ....	795	1,042	1,837	11.5	844	1,124	1,968	12.0
Plant and equipment .....	12,063	—	12,063	75.6	12,019	—	12,019	73.2
Manufacturing and distribution equipment .....	32	—	32	0.2	28	—	28	0.2
Other .....	724	16	740	4.7	787	11	798	4.8
Construction in progress and advance payments .....	1,005	36	1,041	6.5	1,317	42	1,359	8.3
<b>Total .....</b>	<b>14,854</b>	<b>1,094</b>	<b>15,948</b>	<b>100.0</b>	<b>15,238</b>	<b>1,177</b>	<b>16,415</b>	<b>100.0</b>

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications. 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, 2011, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

On December 31, 2011, Tim Brasil group owned approximately 201,752 square meters and leased approximately 1,231,486 square meters of real property, all of which were available for installation of our equipment. Tim Brasil group also leases approximately 158,777 square meters and owns approximately 70,201 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, the Brazilian mobile network and the Argentinean and Paraguayan Networks. 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 about 600 main local switches. Each local switch belongs to only one of the 33 gateway areas. It is also possible to interconnect in 12 Aggregation Areas with Backbone Nodes (“BBN”). The long-distance fixed network (Arianna SDH and Phoenix) routes 4,607 VC-4. The fixed long distance network also includes 123 optical channels 2.5 Gbps point to point and more than 562 optical channels 10 Gbps point to point (also called lambdas from the greek letter  $\lambda$  used for wavelength in physics). The fixed copper network includes 112.2 million km of copper pairs.

Item 4. Information On The Telecom Italia Group	Description Of Property, Plant And Equipment
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At December 31, 2011, the domestic fixed network consisted of the following:

Exchange areas .....	approximately 10,400
Switching areas .....	628 (SGU)
Gateway areas .....	33
Aggregation areas .....	12
Copper network .....	112.2 million kilometers-pair
Fiber optic access/carrier network .....	4.55 million kilometers-line
Long Distance VC4 .....	4,607
Long Distance Lambda .....	123 2.5 Gbps, more than 562 10 Gbps
BroadBand/ADSL network .....	9,002 local switching areas covered
POP main data networks .....	32

**SDH and ATM.** Our Synchronous Digital Hierarchy (“**SDH**”) transmission systems operate 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 2011. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 80 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

**OPB (Optical Packet Backbone).** In 2011 we continued to introduce the Terarouter equipment, deployed in some of the most important PoPs of the network. At the end of 2011 OPB network had Terarouter nodes in the following twenty-five PoPs: two “Centro Stella” PoPs in Rome, two “Centro Stella” in Milan (Inner Core PoPs) and the OPB PoPs located in Naples, Turin, Florence, Palermo, Bari, Bologna, Brescia, Padua, Catania, Nola, Venice, Pisa, Ancona, Taranto, Modena, Verona, Catanzaro, Rimini, Bolzano, Perugia and Pescara (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; and
- Mobile data traffic.

**OPM (Optical Packet Metro).** At the end of 2011 OPM consisted 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).

**Gigabit Ethernet Access.** Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway, Gigabusiness and GEA services on GBE optical access). At the end of 2011, retail services with GBE optical access covered 37 towns in Italy, while wholesale service (GEA) coverage reached 59 towns.

**Broadband/ADSL network.** Telecom Italia’s broadband network offers hi-tech telecommunications services and multimedia applications. In 2011, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 7,241 towns, including S. Marino (compared to 7,045 at the end of 2010). 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 2011 9,002 local switching areas were covered by ADSL technology (compared to 8,784 at the end of 2010, consolidated data).

**NGAN (Next Generation Access Network).** In 2011 Telecom Italia continued to deploy a New Generation Access Network (“**NGAN**”), based on fiber optical cables and GPON (Gigabit capable Passive Optical Network)

Item 4. Information On The Telecom Italia Group	Description Of Property, Plant And Equipment
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technology. First deployments (in 2008) were done using Fiber To The Building (“**FTTB**”) architecture and new generation cabinets, equipped with VDSL2 cards; since 2009, Telecom Italia’s NGAN has been deployed, mainly based on Fiber To The Home (“**FTTH**”) architecture. About 850,000 households had been passed by the end of 2011, mainly in the distribution areas of 40 central offices of Milan, Rome, Catania, Turin, Bologna, Bari, Genoa, Venice. For its NGAN plan Telecom Italia normally installs new optical cables; in Milan Telecom Italia has also acquired the right of use (IRU approach) for 15 years on fiber optics owned by Metroweb (an Utility that already owns a widespread optical access network in Milan).

Starting from 2012 Fiber to the Cabinet (“**FTTC**”) architecture will also be deployed. In the next years, according with the initial phases of UBB deployment, FTTC could be the preferred architecture.

**Fiber optic cables.** At December 31, 2011, approximately 4.55 million kilometers of fiber optic cables have been installed for access and transport. 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.

### ***Domestic Mobile Network***

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

As of December 31, 2011, the Telecom Italia GSM/EDGE network consists of 15,298 radio base stations (compared to consolidated data of 14,881 at December 31, 2010, an increase of 2.8%) and 784,056 radio channels (an increase of 2.9% compared to 762,032 at the end of 2010). The network also includes 456 Base Station Controllers (“**BSC**”) (no change since December 31, 2009).

During 2011 planning and implementation of the UMTS network continued. The Telecom Italia UMTS network consists of 12,943 radio base stations (compared to consolidated data 12,560 at December 31, 2010, an increase of 3.05%) and 1,958,944 radio channels (an increase of 6.35% compared to 1,841,968 at the end of 2010).

In 2011 the implementation of the plan to distribute the High Speed Downlink Packet Access (“**HSDPA**”) and the High Speed Uplink Packet Access (“**HSUPA**”) continued; these systems aim to increase the overall speed of the data transmission package offered by UMTS.

During 2011 the deployment of 42 Mbit/s network performance started, overcoming 11% of resident population coverage.

Also activated on the network are 109 Radio Network Controllers (“**RNC**”) (an increase of 9 units as compared to the end of 2010).

At December 31, 2011 the GSM core network includes: 10 transit exchanges and 13 gateways.

Telecom Italia has completed the process of implementation of seamless core network because the “only GSM MSC” migrated to new machine common with UMTS.

At December 31, 2011, the GSM/UMTS core network includes: 74 MSC servers, 101 MGWs, 47 Home Location Registers (“**HLRs**”), 21 Gateway GPRS Support Nodes (“**GGSNs**”) and 63 Serving GPRS Support Nodes (“**SGSN**”).

After an auction, completed at the end of September 2011, additional frequency blocks on 800 MHz, 1800 MHz and 2600 MHz were acquired by Telecom Italia. The licensing process will be completed during the first months of 2012 and all the bands will be available only at the beginning of 2013. The three bands will be used for Telecom Italia’s Long Term Evolution (“**LTE**”) implementation. LTE will provide ultrabroadband services on mobile.

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### ***International Fixed Network***

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

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

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

The international network connects nearly 500 voice operators all over the world with a span of approximately 450,000 Km on submarine systems reaching all the main regions worldwide.

The cross-border backbone integrates 4 regional networks:

- Europe (**PEB**);
- Latin America backbone;
- Mediterranean basin backbone;
- USA backbone.

In detail:

- **PEB (Pan European Backbone).** Proprietary fiber optic network spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. 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 class 4 softswitches and IP routers. The DWDM and SDH transmission technologies are based on 10 Gbit/s and 40 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), OTN (Optical Transport Network) and "meshed" network.

- **Latin American backbone.** High-capacity backbone based on fiber optic ring networks, terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring has a capacity up to 1.8 Tbit/sec and has automatic optical traffic protection connecting the main cities of South America to Central and North America.
- **Mediterranean backbone.** Submarine ring network, with a highly reliable configuration, a total length of 7,500 km and a design capacity close to 4.5 Tbit/sec connecting the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa, Tel Aviv and Istanbul.
- **USA backbone.** Proprietary high capacity terrestrial backbone with POPs in: Newark, New York, Miami, Ashburn, Atlanta, Chicago, Palo Alto, Los Angeles and Dallas.

The services supplied include voice, 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 cross-border network.

In 2011 both the Pan European and the Italian backbones were upgraded to cope with IP and Managed Bandwidth traffic growth. In London, Paris and Frankfurt available capacity on the metro networks was also increased between Telecom Italia Sparkle POPs and the major collocation facilities. In Italy the new fiber backbone deployment was completed adding two new routes from Sicily to Rome and Milan. Major optimizations were also carried out in the Brussels, Madrid and Barcelona POPs.

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In order to support the international Internet traffic increase, Amsterdam, Frankfurt, London and Marseille POPs were expanded. In Marseille a DWDM metro network was deployed between Telecom Italia Sparkle POP and Sea-Me-We4 cable landing station with the aim to support the strong traffic demand coming from North Africa, Middle East, Far East countries providing additional resiliency to customers landing in Palermo and Catania. Telecom Italia Sparkle is currently interconnected to Sea-Me-We4 in Marseille, Palermo and Singapore thus reinforcing Telecom Italia Sparkle offer in terms of reach, reliability and end-to-end quality of service on this major infrastructure.

IP architecture was strongly reviewed in the London and Paris POPs in order to optimize traffic routing and the expenditures for additional upgrades.

In Milan and Palermo the interconnections with the major content providers were increased. In Milan new CISCO CRS-3 Tabit Routers were added on the core level of the IP backbone in the multi-chassis architecture. These equipment can switch traffic with a speed up to 140 Gbit/sec per slot.

In 2011 capacity between the Singapore POP and the USA backbone was increased in order to keep up with increasing traffic; major upgrades were also carried out among the Newark, New York Miami, Dallas and Atlanta POPs.

The offer of Ethernet services has been enriched with the deployment throughout Europe of new equipment compliant with "Metro Ethernet Forum" recommendations.

The submarine cables with Libya and Albania were upgraded. Additional capacity on the IMEWE cable was also delivered by the cable consortium to Telecom Italia Sparkle. IMEWE connects Europe to Middle East and India providing additional resiliency to the Sea-Me-We4 infrastructure.

Network and IT platforms providing services to mobile and voice operators were further upgraded in order to support SMS Hub, SMS Transit and international signaling traffic increase and provide additional capabilities to handle signaling over IPX. Upgrades to the GRX (Global Roaming eXchanges) and SBC (Session Border Controllers) networks were also carried out. SBC equipment handle VoIP (Voice over IP) traffic allowing an improved interworking among all the interconnected networks and an end-to-end monitoring of the Quality of Service. Also media gateway equipment (allowing the TDM-to-IP conversion) in Europe and SDH/SONET equipment in Newark were upgraded.

As for the services provided to Multinational Customers the network was expanded in major POPs in Europe and America. A new router for IPsec was added in Singapore.

### **Mediterranean Backbone**

In 2011 the new Athens-Istanbul submarine cable was brought into service. Capacity to Greece and Israel was increased by 70 Gbit/sec and capacity to Turkey by 140 Gbit/sec. A new connection between Israel and Marseille via Cyprus was built in order to provide customers with optimized protection and redundancy. Fiber from Pentaskinos to Catania was also opened in Crete and extended to Athens.

A new data center dedicated for "cloud computing" services was built in Istanbul. Network upgrades at SDH and IP level were also completed in all of the major POPs.

### **Latin American Backbone**

In 2011 the 80 Gbit/sec SAC network upgrade has been initiated. The TAC and MAC cables were upgraded by 50 Gbit/sec each and Cooks by 70 Gbit/sec.

In the Buenos Aires IP POP new Tbit Routers were introduced both at the core and edge level. A new edge router was also added in the Sao Paulo POP.

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### ***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, 2011, we had 115 mobile switches, 157 thousand TRXs, 6,476 Node B and approximately 24,800 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

Tim Brasil plans to invest up to 9 billion Brazilian reais in capital expenditures, in accordance with its industrial plan for the years 2012-2014.

### ***Argentinean and Paraguayan Network***

Telecom Italia Group's operation in Argentina is carried out in two major areas. Voice, data and Internet services (provided through Telecom Argentina) and mobile services (provided through Telecom Personal). In Paraguay, there is only a mobile operation (through Núcleo).

In connection with providing the above services, the major fixed assets owned by these companies are comprised of outside plant (external wiring), urban and regional fiber links to connect major telecommunication buildings and mobile sites, access facilities (radio base stations) for the mobile system, switching equipment to connect calls to and from fixed and mobile customers, transmission equipment to interconnect all switching equipment and IP network to carry all data traffic. The transmission and IP facilities are used by both areas, "mobile" and "fixed".



Item 4A. Unresolved Staff Comments	
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**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 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as “IFRS”). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of subjective assumptions and estimates that underlie 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 could differ, even significantly, from these estimates owing to possible changes in the factors considered in the determination of such estimates. 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 economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects and in accordance with IFRS.

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 subjective assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

#### Revenue recognition

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

- *Revenues from services rendered*

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

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized when the information or content is delivered to the customer. In the event that the Group is acting as agent, only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services. To determine the expected duration of the relationship with 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 consolidated statement of financial position.

- *Revenues from sales and bundled offerings*

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

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 final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. 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 and broadband businesses are contracts with a minimum contractual period between 12 and 24 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under "Intangible assets with a finite useful life" if the conditions for capitalization as described in the related accounting policy are met.

- *Revenues on construction contracts*

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

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

### **Allowance for doubtful accounts**

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

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

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

### **Acquisition accounting, goodwill and purchase price allocation**

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

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

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

Item 5. Operating And Financial Review And Prospects	Critical Accounting Policies And Estimates
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The purchase price allocation requires that all assets and liabilities be recorded at fair values which requires significant estimates and judgements to be made. A change in any of these estimates or judgments could change the amount allocated to the assets and liabilities. The resulting change in the purchase price allocation to assets or liabilities has a direct impact on the final amount of the purchase price that is allocated to 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 separate consolidated income statement.

### Accounting for transactions involving interests in group companies

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

Under IAS 27, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

### Impairment of assets

The determination of impairment 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 test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or groups of cash-generating units which is expected to benefit from the acquisition.

Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific

to the asset. The future cash flows are those arising from an explicit time horizon of three years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of a cash-generating unit which operates in a foreign currency is estimated in the local currency by discounting cash flows to their present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

See "Note—Goodwill" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

- Intangible and tangible assets with a finite useful life.** At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate consolidated income statement. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets or 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 rely heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

### Derivative financial instruments

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

### Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is a deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity is considered a "Defined benefit plan, except when employees, starting from the year 2007, choose to direct their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the Italian Social Security Institute (INPS); in such case the employee severance indemnity is classified as a "Defined contribution plan".

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit costs may be materially affected.

### Provisions and contingent liabilities

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such 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.

Item 5. Operating And Financial Review And Prospects	Critical Accounting Policies And Estimates
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## 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 taxable temporary differences, taking into account any restrictions on the carry-forward 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 carry-forward 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 and results of operations may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate consolidated income statement.



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## 5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2011

### 5.2.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES

Increased competition continues to have a significant impact on the development of our business. Key trends affecting our core businesses are:

#### *Domestic Business Unit*

Telecommunications are strengthening their central role in society, driven by the growing importance of broadband, both fixed and mobile. The ongoing convergence of telecommunications, Information Technology, Media and Consumer Electronics has led to greater competition and faster innovation, thus increasing the industry's complexity. These macro factors have, and continue to have a material impact on how we plan for, and manage our business.

In the Italian telecommunications market there has been a reduction in consumer spending of the expense for both fixed and mobile services, driven by a decline of traditional voice services, only partially offset by the growth of new Broadband services.

The main strategic priorities and objectives of Telecom Italia in the Domestic market are: protect the value of voice services and market shares; strengthen broadband positioning; develop innovative services: (eg: home gateway and content enrichment; over the top services; cloud computing); further operating expense efficiency and optimization of capital expenditures aiming at ensuring a balanced mix between maintenance and innovation.

#### *Brazil Business Unit*

Growth in the Brazilian telecommunications market is driven by mobile. Significant trends include acceleration of fixed to mobile substitution and the further development of broadband.

Mobile broadband represents in Brazil a competitive alternative to fixed broadband, considering the country's geography and fixed network characteristics.

In light of these market trends, TIM Brasil's main strategic priorities and objectives are: to grow its customer base and increase its market share; consolidate as the second mobile operator in the Brazilian market; drive fixed mobile substitution; further development of mobile internet to strongly increase VAS share of service revenues; strengthen the network infrastructure; improve profitability and cash generation.

The acquisition of AES Atimus group will give TIM Brasil the opportunity to enter the residential ultra broadband market in Rio de Janeiro and São Paulo areas and become a growing player through INTELIG in the Corporate Market.

#### *Argentina Business Unit*

With respect to the telecommunications market in Argentina, growth is expected to be driven by fixed broadband and VAS, and mobile broadband and VAS. The introduction of Mobile Number Portability in 2012 could increase competition in the mobile market.

Argentina's strategic priorities and goals are: increase revenues and profitability, increase mobile and fixed customer base, consolidate mobile revenue share and pursue convergence in the development of its fixed and mobile networks through the use of synergies, funding necessary network investments through strong financial position and cash generation.

### 5.2.2 REORGANIZATION OF BUSINESS

The data of the Telecom Italia Group is presented in this 2011 Annual Report according to the following operating segments:

- **Domestic:** includes operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the relative support activities in Italy;

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- **Brazil:** includes mobile (TIM Celular) and fixed (Intelig, TIM Fiber SP and TIM Fiber RJ) telecommunications operations in Brazil;
- **Argentina:** includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;
- **Media:** includes television network operations and management;
- **Olivetti:** includes activities for the manufacture of digital printing systems and office products and Information Technology services;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

The principal changes in the scope of consolidation are as follows:

- companies entering the scope of consolidation:
  - on October 31, 2011, we acquired a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A., both telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. The acquisitions were carried out through the subsidiary Tim Celular S.A.—Brazil Business Unit;
  - on July 27, 2011, the 4G Holding group entered the scope of consolidation (in the Domestic Business Unit) after the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l. The acquisition of 4G Holding, with its approximate 200 points-of-sale located in the most important shopping malls in Italy, will enable Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment and broaden its nationwide presence;
  - on October 13, 2010, Sofora—the holding company which controls Telecom Argentina—entered into the scope of consolidation following the increase, from 50% to 58%, in the stake held by the Telecom Italia Group in the share capital of Sofora. In 2011, further shares were acquired which increased the economic stake in the Telecom Argentina group from 16.2% as of December 31, 2010 to 22.7% as of December 31, 2011;
- companies exiting the scope of consolidation:
  - on September 30, 2011, Loquendo S.p.A. was sold and consequently exited the scope of consolidation;
  - in 2010, Elettra (a company previously included in the Domestic Business Unit – International Wholesale), was sold on September 30, 2010, and the BBNed group (included in Other Operations), was sold on October 5, 2010, exited the scope of consolidation.

For a description of certain 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 2011, 2010, and 2009 consistent with the structure of each Business Unit at December 31, 2011.

### 5.2.3 NON-GAAP FINANCIAL MEASURES

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (“**Non-GAAP Measures**”).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measure used relate to Net Financial Debt.

**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10(e) 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

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over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Non-current financial liabilities .....	35,860	34,348
Current financial liabilities .....	6,091	6,882
<b>GROSS FINANCIAL DEBT (A) .....</b>	<b>41,951</b>	<b>41,230</b>
<b>NON-CURRENT FINANCIAL ASSETS (B) .....</b>	<b>(2,949)</b>	<b>(1,863)</b>
<b>Current financial assets:</b>		
—Securities other than investments .....	(1,007)	(1,316)
—Financial receivables and other current financial assets .....	(462)	(438)
—Cash and cash equivalents .....	(6,714)	(5,526)
<b>TOTAL CURRENT FINANCIAL ASSETS (C) .....</b>	<b>(8,183)</b>	<b>(7,280)</b>
<b>FINANCIAL ASSETS (D = B + C) .....</b>	<b>(11,132)</b>	<b>(9,143)</b>
<b>NET FINANCIAL DEBT (A + D) .....</b>	<b>30,819</b>	<b>32,087</b>

#### 5.2.4 OVERVIEW OF 2011 RESULTS OF OPERATIONS

In 2011, we achieved the following in our domestic market:

- In the **Domestic Fixed Telecommunications Service Business**, compared with the past couple of years the overall access market showed a higher decline due mainly to an increase in alternative operators churn, whereas Telecom Italia's performance in terms of line losses improved (699 thousands line losses in 2011 compared to 746 thousand line losses in 2010 and 1.255 thousand line losses in 2009). Despite the continuing line losses, wireline service revenues on a full-year basis were down by only 3.5%, with an improving trend and a fourth quarter figure of just -1.9% year-on-year, due to price simplification and the monthly fee increase introduced on July 1, 2011 (with regard to conventional rates for calls between fixed lines, Telecom Italia was among the first operators in Europe to end the distinction between full and reduced rates on the basis of time bands, for both local and long-distance calls, thus enabling customers to benefit from a fixed price 24 hours a day 7 days a week). The decline is largely attributable to the reduction in retail accesses, which at December 31, 2011 amounted to 14.7 million lines (-4.6% compared to December 31, 2010); however the trend has shown signs of improvement due to sales policies aimed at maintaining and winning back customers. Fixed and broadband full-year market dynamics slowed down notwithstanding the discounts offered by our competitors which attracted low spending segments. Telecom Italia's broadband service revenues improved in the second half 2011, confirming the success of our value-focused strategy, driven by the **SuperInternet** offer model (Superinternet is a bolt-on option—launched in April 2011—which meets the market requirement for more bandwidth in terms of download and, more particularly, upload). Its good performance is evident given the broadband consumer ARPU grew by 2.1% year-on-year in the last quarter. The total broadband portfolio at December 31, 2011 was 9.1 million accesses (+ 31,000 compared to December 31, 2010), of which 7.1 million are retail accesses, with a market share of 53.0%, down from 2010 (-1.8 percentage points), and 2.0 million are wholesale accesses.

- The **Domestic Mobile Telecommunications Service Business**, still falling in terms of revenues, continues to show structural improvement in sales performance, demonstrating the value of the repositioning strategy. The customer base totals approximately 32.2 million lines with an increase of 1.2 million since the end of 2010, mostly due to higher acquisitions and stable churn rates (21.9% compared to 22.0% in 2010). This strategy resulted in both an annual and quarterly improvement in the trend of Mobile Telecommunication Revenues (-2.2% in the fourth quarter 2011; -6.5% in the third; -9.2% in the second and -12% in the first quarter). These results have been supported also by a solid growth in handsets sales (+40% year-on-year on full-year basis) and quarterly improvements in browsing revenues (-6.9% year-on-year in 1Q11, +2.8% year-on-year in 2Q11, +18.7% year-on-year in 3Q 11 and +21.0% year-on-year in fourth quarter). TIM focused its acquisition strategy by customer segment with directed sales strategies such as Tutto Compreso Ricaricabile (main offer for the entire Consumer market), TIM Young for the youth segment and "TIM Card International New" for ethnic customers. With high-value customers TIM focused on Tutto Compreso bundle offers combining high-end handsets (such as iPhones and other smartphones), with tailored service solutions. At the same time, the Mobile Broadband portfolio was addressed and protected with new tariff plans such as—"Internet Pack senza limiti" and "Internet Pack Premium con chiavetta a 42Mega"—for browsing with large-screen devices (i.e. Personal Computers), "Internet Senza Limiti" for tablets, and the re-launch of "TIMx Smartphone senza limiti" plan for internet via smartphones, mostly aimed at ensuring greater transparency and value-for-money perception for customers (2.5 euro/week for 250 MB of internet access).

In 2011, we achieved the following with respect to our international markets:

- Brazil.** Tim Brasil's customer base grew in 2011 by 25.6% compared to 2010 (adding 13.1 million new customers); its market share expanded to 26.5% from 25.1% in 2010. Based on value market share (share in service revenues) Tim Brasil was the second largest Brazilian mobile operator. The company also recorded strong growth on its pre-paid segment increasing 25.8% year over year (reaching 54.8 million customers), while the post-paid clients increased 24.4% year over year (totaling 9.3 million subscribers).

Tim Brasil continued to focus on growth and profitability, through cost discipline and initiatives to increase revenue from value-added services, increase traffic volumes/usage and network service quality. On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analyses and operating expenses.

- Argentina.** In the **Fixed Business** the growth was mainly due to the increase in the broadband business. The leadership of the brand "Arnet" was based on effective communication with a differentiated offer by segment and competitive pricing. The growth of broadband accesses combined with a pricing strategy increased the customer base value and showed a higher ARPU (+14%). The broadband accesses increased 12% reaching 1.6 million accesses as of December 31, 2011. Rates for regulated voice services continued to be affected by the freezing of rates established by the Public Emergency Law enacted in January 2002. During 2011, the lines in service increased 1% from 2010, influenced by market maturity and reaching 4.1 million lines as of December 31, 2011. The ARBU (Average Revenue Billed per User) increased 7% as a result of Telecom Argentina's efforts in satisfying its customers demand for access and adapting the portfolio to its customer's needs, trying to contain the drop of minutes of use related to the effect of substitution of mobile traffic. Also, during 2011, the focus remained on selling data services and dedicated Internet accesses.

In the **Mobile Business** Telecom Personal's customer portfolio increased by 1.9 million customers (+11%), reaching 18.2 million subscribers as of December 31, 2011, of which 32% were post-paid customers.

At the same time, an expansion in market share based on high-value customer acquisitions with a differential strategy focused by region, resulted in ARPU improving in all its products (approximately 16% over the prior year). A large part of this growth can be traced to value-added services (including SMS text messaging and the mobile internet service) which, on the whole, accounts for approximately 48% of Personal mobile services revenues in 2011.

In Paraguay, the Núcleo customer base grew by about 14% over the prior year and at the end of 2011 Núcleo had 2.1 million customers, of which 17% were postpaid. During 2011, Núcleo consolidated its brand highlighting the attributes of closeness, youth and convenience, maintaining leader in preference to young customers segments.

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The following table sets forth our consolidated income statement for the years ended December 31, 2011, 2010 and 2009.

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Revenues .....	29,957	27,571	26,894
Other income .....	299	255	280
<b>Total operating revenues and other income .....</b>	<b>30,256</b>	<b>27,826</b>	<b>27,174</b>
Acquisition of goods and services .....	(12,859)	(11,383)	(11,480)
Employee benefits expenses .....	(3,917)	(4,021)	(3,734)
Other operating expenses .....	(1,859)	(1,422)	(1,345)
Changes in inventories .....	56	(135)	(15)
Internally generated assets .....	569	547	515
Depreciation and amortization .....	(5,494)	(5,542)	(5,551)
Gains (losses) on disposals of non—current assets .....	3	11	(59)
Impairment reversals (losses) on non—current assets .....	(7,358)	(63)	(12)
<b>Operating profit (loss) .....</b>	<b>(603)</b>	<b>5,818</b>	<b>5,493</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method .....	(39)	99	67
Other income (expenses) from investments .....	16	289	(51)
Finance income .....	2,464	3,081	2,561
Finance expenses .....	(4,462)	(5,155)	(4,731)
<b>Profit (loss) before tax from continuing operations .....</b>	<b>(2,624)</b>	<b>4,132</b>	<b>3,339</b>
Income tax expense .....	(1,643)	(550)	(1,121)
<b>Profit (loss) from continuing operations .....</b>	<b>(4,267)</b>	<b>3,582</b>	<b>2,218</b>
Profit (loss) from Discontinued operations/Non—current assets held for sale .....	(13)	(7)	(622)
<b>Profit (loss) for the year .....</b>	<b>(4,280)</b>	<b>3,575</b>	<b>1,596</b>
Attributable to:			
● <i>Owners of the Parent</i> .....	(4,726)	3,121	1,581
● <i>Non-controlling interests</i> .....	446	454	15

#### 5.2.5 BUSINESS UNIT FINANCIAL DATA

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

		Domestic	Brazil	Argentina(1)	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of euros, except number of employees)							
Revenues(2) .....	2011	19,032	7,343	3,220	238	343	2	(221)	29,957
	2010	20,068	6,199	798	258	391	64	(207)	27,571
	2009	21,663	4,753	—	230	350	90	(192)	26,894
Operating profit (loss) .....	2011	(1,945)	986	509	(87)	(41)	(15)	(10)	(603)
	2010	5,162	685	110	(92)	(24)	(38)	15	5,818
	2009	5,393	209	—	(80)	(19)	(30)	20	5,493
Capital expenditures .....	2011	4,200	1,290	556	61	5	—	(17)	6,095
	2010	3,106	1,216	188	67	5	4	(3)	4,583
	2009	3,515	964	—	53	4	7	—	4,543
Number of employees at year-end(3) .....	2011	55,389	10,539	16,350	765	1,075	36	—	84,154
	2010	56,530	10,114	15,650	777	1,090	39	—	84,200
	2009	59,367	9,783	—	757	1,098	379	—	71,384

(1) In the scope of consolidation since October 13, 2010.

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- (2) 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).
- (3) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

## 5.2.6 Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

### ❖ REVENUES

**Revenues** amounted to 29,957 million euros in 2011, an increase of 2,386 million euros, or 8.7%, compared to 27,571 million euros in 2010.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,					
	2011		2010		Changes	
	Revenues(1)	% of Consolidated revenues	Revenues(1)	% of Consolidated revenues	(a-b)	%
	(a)	(b)	(b)			
	(millions of euros, except percentages)					
Domestic .....	19,032	63.5	20,068	72.8	(1,036)	(5.2)
● <i>Core Domestic</i> .....	18,123	60.5	19,065	69.1	(942)	(4.9)
● <i>International Wholesale</i> .....	1,393	4.6	1,569	5.7	(176)	(11.2)
Brazil .....	7,343	24.5	6,199	22.5	1,144	18.5
Argentina(2) .....	3,220	10.7	798	2.9	2,422	
Media, Olivetti and Other Operations(3) ....	583	1.9	713	2.6	(130)	(18.2)
<i>Adjustments and eliminations</i> .....	(221)	(0.6)	(207)	(0.8)	(14)	
<b>Total Revenues</b> .....	<u>29,957</u>	<u>100.0</u>	<u>27,571</u>	<u>100.0</u>	<u>2,386</u>	<u>8.7</u>

(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) In the scope of consolidation since October 13, 2010.

(3) 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.

Revenues in the **Domestic Business Unit** (divided into Core Domestic and International Wholesale) declined by 5.2% compared to 2010. The decrease in revenues, notwithstanding the weak domestic economy and continuing competitive pressures, is slowing down and improving. This is due to higher mobile revenues (particularly revenues from services and internet mobile devices), protection of the value of the customer base and development of ICT services in the fixed area.

Revenues from services confirm the improving trend over the prior year. Revenues from services in the mobile area are still being impacted, although to a lesser degree, by the competitive repositioning of TIM's plans particularly as regards voice traffic.

The fixed-line area, with a decline in revenues from services, displayed a considerable improvement in the fourth quarter of 2011. In particular, revenues from retail customers decreased at a lower pace than that recorded in 2010 and showed an improving trend during the course of the year.

With respect to handset sales, revenues recovered entirely driven by the mobile area which benefits from a greater sales push on handsets offering mobile internet connectivity.

With respect to the **Brazil Business Unit**, revenues totaled 7,343 million euros in 2011, an increase of 1,144 million euros compared to 2010. Revenues from services increased, mainly due to the growth of the customer base (over 64 million mobile lines at December 31, 2011, up 25.6% over the prior year). Handset revenues also, increased significantly where, as in the domestic business, the strategy focused on smartphones and webphones as the lever for the growth of mobile data traffic revenues.



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As for the **Argentina Business Unit** (included in the scope of consolidation since October 13, 2010), revenues totaled 3,220 million euros in 2011, an increase of 2,422 million euros compared to 2010 which only included the two and a half months in 2010. In particular, the increase was related to the mobile business revenues.

For a more detailed analysis of revenue performance by individual Business Unit, reference should be made to "The Business Units of the Telecom Italia Group".

#### ❖ OTHER INCOME

Details are as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Late payment fees charged for telephone services .....	71	72	(1)	(1.4)
Recovery of employee benefit expenses, purchases and services rendered ...	36	47	(11)	(23.4)
Capital and operating grants .....	24	38	(14)	(36.8)
Damage compensations, penalties and sundry recoveries .....	36	18	18	100.0
Sundry income .....	132	80	52	65.0
<b>Total other income .....</b>	<b>299</b>	<b>255</b>	<b>44</b>	<b>17.3</b>

#### ❖ OPERATING EXPENSES

Our operating expenses amounted to 30,859 million euros in 2011, an increase of 8,851 million euros, or 40.2% compared to 22,008 million euros in 2010. The increase is attributable to the following:

- **Acquisition of goods and services** amounted to 12,859 million euros in 2011, an increase of 1,476 million euros, or 13.0%, compared to 2010 (11,383 million euros). The increase is largely due to the entry of the Argentina Business Unit in the scope of consolidation for the full-year 2011 (+1,052 million euros, including a negative exchange rate effect for 34 million euros) and the significant increase in the sales and technical costs of the Brazil Business Unit—the main cause of the overall increase of 879 million euros—needed to support the growth of the customer base and sales. Offsetting these increases in part were declines in the domestic business which benefitted from cost cutting actions which contributed to a reduction in purchases of 365 million euros compared to 2010 (-5.1%).

In detail:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Purchase of goods .....	2,525	1,568	957	61.0
Portion of revenues to be paid to other operators and interconnection costs .....	4,232	4,275	(43)	(1.0)
Commercial and advertising costs .....	2,259	2,100	159	7.6
Power, maintenance and outsourced services .....	1,618	1,258	360	28.6
Rent and leases .....	647	594	53	8.9
Other service expenses .....	1,578	1,588	(10)	(0.6)
<b>Total acquisition of goods and services .....</b>	<b>12,859</b>	<b>11,383</b>	<b>1,476</b>	<b>13.0</b>
<b>% on Revenues .....</b>	<b>42.9</b>	<b>41.3</b>		



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## ● Employee benefits expenses

In detail:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses—Italian companies:				
● Ordinary expenses of employees—excluding actuarial (gains) losses .....	3,186	3,317	(131)	(3.9)
● Actuarial (gains) losses relating to employee severance indemnities .....	(117)	(4)	(113)	
● Expenses for collective redundancy procedure ("mobilità") under Law 223/91 .....	12	258	(246)	(95.3)
<b>Total employee benefits expenses—Italian companies .....</b>	<b>3,081</b>	<b>3,571</b>	<b>(490)</b>	<b>(13.7)</b>
<b>Total employee benefits expenses—Foreign companies .....</b>	<b>836</b>	<b>450</b>	<b>386</b>	<b>85.8</b>
<b>Total employee benefits expenses .....</b>	<b>3,917</b>	<b>4,021</b>	<b>(104)</b>	<b>(2.6)</b>
<i>% on Revenues .....</i>	<i>13.1</i>	<i>14.6</i>		

The change was affected by:

- the impact of 364 million euros, including the negative exchange rate effect of 11 million euros, due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+11,521 average employees compared to 2010);
- the reduction of the Italian component of ordinary employee benefits expenses, mainly due to the reduction in the average headcount of the salaried workforce by 3,526 compared to 2010 (of which -1,188 are under so-called "solidarity contracts" in Telecom Italia S.p.A. and Shared Service Center S.r.l.);
- the reduction of 113 million euros owing to the actuarial effects relating to employee severance indemnities in connection both with the change in the economic assumptions (discount rate and inflation rate) and the new law concerning pensions (Law 214 of December 22, 2011) which extends the retirement age;
- lower expenses of 246 million euros in connection with the mobility procedure under Law 223/91. Employee benefits expenses in 2010 included expenses of 258 million euros relating to the start of the mobility procedure under Law 223/91 by the Parent, Telecom Italia, SSC—Shared Service Center S.r.l., Telecom Italia Sparkle, Olivetti S.p.A. and Olivetti I-Jet. In 2011, the provisions were adjusted by another 12 million euros, of which 9 million euros is for the Parent, Telecom Italia, and 3 million euros for SSC—Shared Service Center S.r.l.

The Group's average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(equivalent number, except percentages)			
Average salaried workforce—Italy .....	53,561	57,087	(3,526)	(6.2)
Average salaried workforce—Foreign(1) .....	24,808	13,063	11,745	89.9
<b>Total average salaried workforce(2) .....</b>	<b>78,369</b>	<b>70,150</b>	<b>8,219</b>	<b>11.7</b>

(1) The increment in the average employees of the salaried workforce is primarily attributable to the consolidation of the Argentina Business Unit for the full year 2011 (15,232 average headcount in 2011).

(2) Includes the average employees with temp work contracts: 87 in 2011 (75 in Italy and 12 outside Italy). In 2010 the headcount was 84 (68 in Italy and 16 outside Italy).

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Group's employees at December 31, 2011 and 2010 were as follows:

	As of December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(units, except percentages)			
Employees—Italy .....	56,878	58,045	(1,167)	(2.0)
Employees—Foreign .....	27,276	26,155	1,121	4.3
<b>Total Employees (1) .....</b>	<b>84,154</b>	<b>84,200</b>	<b>(46)</b>	<b>(0.1)</b>

(1) Includes employees with temporary work contracts: 42 units at December 31, 2011 and 71 units at December 31, 2010.

## ● Other operating expenses

Details are as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management .....	533	478	55	11.5
Accruals to provisions .....	128	80	48	60.0
Indirect duties and taxes .....	349	200	149	74.5
TLC operating fees .....	675	484	191	39.5
Penalties, compensation and administrative sanctions .....	41	105	(64)	(61.0)
Association dues and fees, donations, scholarships and traineeships ....	23	24	(1)	(4.2)
Sundry expenses .....	110	51	59	115.7
<b>Total other operating expenses .....</b>	<b>1,859</b>	<b>1,422</b>	<b>437</b>	<b>30.7</b>
<i>% on Revenues .....</i>	<i>6.2</i>	<i>5.2</i>		

Other operating expenses in 2011 grew 437 million euros compared to 2010, largely on account of the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+248 million euros, including a negative exchange rate effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

- writedowns and expenses in connection with credit management include mainly 397 million euros (317 million euros in 2010) attributable to the Domestic Business Unit, 100 million euros (133 million euros in 2010) attributable to the Brazil Business Unit and 29 million euros attributable to the Argentina Business Unit;
- accruals to provisions recorded for pending disputes relate mainly to 60 million euros (18 million euros in 2010) of the Brazil Business Unit, 50 million euros (53 million euros in 2010) of the Domestic Business Unit, and 17 million euros of the Argentina Business Unit;
- TLC operating fees comprise 554 million euros (412 million euros in 2010) attributable primarily to the Brazil Business Unit, 61 million euros attributable to the Argentina Business Unit and 58 million euros to the Domestic Business Unit.

- **Depreciation and Amortization**

Details are as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Amortization of intangible assets with a finite useful life .....	2,162	2,216	(54)	(2.4)
Depreciation of tangible assets—owned and leased .....	3,332	3,326	6	0.2
<b>Total depreciation and amortization .....</b>	<b>5,494</b>	<b>5,542</b>	<b>(48)</b>	<b>(0.9)</b>
<i>% on Revenues .....</i>	<i>18.3</i>	<i>20.1</i>		

The increase in amortization and depreciation charges due to the entry of the Argentina Business Unit in the scope of consolidation (+390 million euros, including a negative exchange rate effect of 13 million euros), was more than offset by the decrease in amortization and depreciation charges of the Domestic Business Unit (-329 million euros) and the Brazil Business Unit (-108 million euros, including the effect of the change in the real/euro exchange rate of +3 million euros).

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

Net gains on disposals of non-current assets were 3 million euros. The gain of 35 million euros, net of the relative transaction costs, realized on the sale of Loquendo at the end of September 2011 was offset by net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, net gains on disposals of non-current assets were 11 million euros and included the gain, net of the related transaction costs, of 19 million euros, in connection with the completion of the transactions for the sale of Elettra by the Domestic Business Unit—International Wholesale.

- **Net impairment losses on non-current assets**

Net impairment losses on non-current assets amounted to 7,358 million euros in 2011 (63 million euros in 2010).

This item includes 7,307 million euros for the impairment charge on the goodwill allocated to the Core Domestic cash-generating unit in the Domestic Business Unit and 57 million euros for the impairment charge on the goodwill allocated to the Media Business Unit, which had been written down by 46 million euros in 2010.

In particular, in preparing the annual financial statements, the Telecom Italia Group repeated the impairment test that had been performed in the first half of 2011 which led to the recognition, in the Half-year Financial Report at June 30, 2011, of an impairment loss of 3,182 million euros relating to the Core Domestic cash-generating unit.

Macroeconomic and market conditions have reflected a slowdown in the higher growth emerging economies and fears of a recession in many mature economies, in particular countries in the Euro zone, which has been particularly acute in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to higher interest rates for the Italian government. The impairment test therefore took into account the deterioration of the financial markets in general terms, with reference to interest rates, while worsening expectations regarding the market prospects of the Domestic and Media Business Unit were major factors in making the determination of impairment in specific terms.

It should be emphasized that the cost of capital of the Core Domestic CGU recorded a significant increase compared to December 31, 2010, principally due to the rise in long-term rates of the sovereign securities of Italy, from 7.90% to 8.90%.

Further details are provided in the "Note—Goodwill" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Furthermore, this item includes other impairment charges on tangible assets.

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#### ❖ OPERATING PROFIT (LOSS)

**Operating loss** was 603 million euros in 2011 (operating profit of 5,818 million euros in 2010). The operating loss is attributable to the impact of the impairment charge of 7,364 million euros on the goodwill allocated to the Domestic and Media Business Units.

#### ❖ SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
EtecSA (Cuba) .....	—	84	(84)	(100.0)
Italtel group .....	(38)	3	(41)	
Other .....	(1)	12	(13)	(108.3)
<b>Total</b> .....	<b>(39)</b>	<b>99</b>	<b>(138)</b>	<b>(139.4)</b>

The Share of profits (losses) of associates and joint ventures accounted for using the equity method was a loss of 39 million euros in 2011 (profit of 99 million euros in 2010). In particular, the year 2011 was negatively affected by the writedown of the entire investment in the Italtel Group: taking into account the overall macroeconomic situation and the specific prospects of future evolution of the company's business led us to conclude that the recovery of our investment in this associate was not probable.

The year 2010 included the positive contribution of our investment in EtecSA (Cuba), including the share of results up to September 30, 2010 and the reversal of impairment losses (30 million euros) after agreements were reached at the end of 2010 for the sale of the investment which was subsequently finalized on January 31, 2011.

For further details about the above mentioned investments accounted for using the equity method please see "Note—Other Non-current assets" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### ❖ OTHER INCOME (EXPENSES) FROM INVESTMENTS

In 2011, Other income (expenses) from investments is an income balance of 16 million euros and includes 17 million euros for the gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010.

In 2010, Other income (expenses) from investments was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

#### ❖ FINANCE INCOME (EXPENSES)

Finance income (expenses) is a net expense of 1,998 million euros (a net expense of 2,074 million euros in 2010), with a positive change of 76 million euros largely arising from lower net debt exposure.

For further details about finance income and finance expenses, please see "Note—Finance income and Finance expenses", of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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## ❖ INCOME TAX EXPENSE

Income tax expense is 1,643 million euros an increase of 1,093 million euros compared to 2010 (550 million euros). In particular, income taxes in 2010 included a benefit of more than 600 million euros deriving mainly from the recognition of deferred tax assets by the Brazil Business Unit. Such deferred tax assets are in connection with tax loss carryforwards which became recoverable on the basis of the prospects of earnings of the companies in the Business Unit. In addition to this effect, the increase in income taxes was also due to the higher taxable base of the Parent, Telecom Italia, the Brazil Business Unit as well as the consolidation of the Argentina Business Unit for the full year 2011.

## ❖ PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

In 2011, the balance is a loss of 13 million euros and includes expenses incurred in connection with sales transactions of prior years. In 2010, the balance was a loss of 7 million euros and included the same type of transactions.

## 5.2.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2011 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2010

### ❖ DOMESTIC

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	19,032	20,068	(1,036)	(5.2)
Operating profit (loss) .....	(1,945)	5,162	(7,107)	
● % of Revenues .....		25.7		
Capital expenditures .....	4,200	3,106	1,094	35.2
Employees at year-end (units) .....	<u>55,389</u>	<u>56,530</u>	<u>(1,141)</u>	<u>(2.0)</u>

**Revenues** decreased by 1,036 million euros, or 5.2%, from 20,068 million euros in 2010 to 19,032 million euros in 2011.

In detail, an analysis of the Domestic Business Unit's revenues by market segment is as follows:

### ● Core Domestic

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues(1) .....	18,123	19,065	(942)	(4.9)
● Consumer .....	9,217	9,739	(522)	(5.4)
● Business .....	3,267	3,509	(242)	(6.9)
● Top .....	3,322	3,511	(189)	(5.4)
● National Wholesale .....	2,103	2,076	27	1.3
● Other .....	214	230	(16)	(7.0)
Operating profit (loss) .....	(2,088)	4,967	(7,055)	
● % of Revenues .....		26.1		
Capital expenditures .....	4,124	3,027	1,097	36.2
Employees at year-end (units) .....	<u>54,380</u>	<u>55,475</u>	<u>(1,095)</u>	<u>(2.0)</u>

(1) Data are net of intersegment transactions.

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In 2011, except for National Wholesale, revenues in all segments declined but reflected an improving trend during the course of the year due to the growth of the mobile customer base, a reduction in the loss of fixed accesses and the effectiveness of new offers both in terms of the slowdown in price reductions and the development of new services (Broadband and ICT). In particular:

- **Consumer:** the Consumer segment reported a decrease in revenues of 522 million euros (-5.4%) compared to 2010. Despite the overall decrease a trend of improvement was evident during the year compared to the same periods of 2010 (-0.4% in the fourth quarter of 2011, -4.0% in the third, -6.4% in the second, -9.2% in the first). 2010 included revenues of 35 million euros relating to the end of the "1001TIM" loyalty program which had resulted in the recognition of revenues from previously deferred bonus points that had not been used by the customer. The decrease was attributable to a decline in revenues from services. This decline was attributable to traditional voice services, both mobile and fixed, that were only partly offset by higher mobile internet revenues (+81 million euros, or +17.8% compared to 2010 and +28 million euros, or +22.6% in the fourth quarter compared to the same period of the prior year).
- **Business:** in 2011, revenues in the Business segment decreased by -242 million euros (-6.9%), although there was an improving trend since the beginning of the year. This decline principally relates to the mobile services and traditional fixed-line voice services, with the latter, in particular, attributable to the smaller customer base (-5.8% compared to 2010).
- **Top:** the reduction in revenues in 2011 by the Top segment was 189 million euros (-5.4%) compared to 2010. Such decline principally related to revenues from services (-144 million euros, or -4.8%), due, in particular, to a decline in fixed telephony and a reduction in per unit mobile voice revenues which was only partially compensated by the growth in fixed-line ICT.
- **National Wholesale:** the increase in the revenues of National Wholesale (+27 million euros, or +1.3%) was generated by the growth of the customer base of ANOs utilizing services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.
- **International Wholesale**

	Year ended December 31,			
	2011	2010	Change	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	1,393	1,569	(176)	(11.2)
● <i>Of which third parties</i> .....	960	1,099	(139)	(12.6)
Operating profit .....	143	194	(51)	(26.3)
● <i>% of Revenues</i> .....	10.3	12.4		
Capital expenditures .....	76	82	(6)	(7.3)
Employees at year-end (units) .....	1,009	1,055	(46)	(4.4)

Revenues of International Wholesale (the Telecom Italia Sparkle group) were 1,393 million euros in 2011, down 176 million euros, or -11.2% compared to 2010. Such decline is almost entirely due to voice services (-167 million euros, or -14.8%), which were adversely impacted by strong price pressure caused by market competition and also measures to rationalize the sector based on a more selective approach in terms of the quality of the customer portfolio and traffic, without any significant impact on margins. Revenues in 2010 included 29 million euros generated by the subsidiary Elettra which was sold in September 2010.

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In addition to the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below.

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

Market segment	Year ended December 31,								
	2011			2010			Change %		
	Total	Fixed (1)	Mobile (1)	Total	Fixed (1)	Mobile (1)	Total	Fixed (1)	Mobile (1)
	(millions of euros, except percentages)								
Consumer .....	9,217	4,409	4,973	9,739	4,674	5,275	(5.4)	(5.7)	(5.7)
Business .....	3,267	2,182	1,126	3,509	2,336	1,220	(6.9)	(6.6)	(7.7)
Top .....	3,322	2,585	826	3,511	2,724	887	(5.4)	(5.1)	(6.9)
National Wholesale .....	2,103	3,028	154	2,076	2,934	234	1.3	3.2	(34.2)
Other .....	214	220	35	230	201	76	(7.0)	9.5	(53.9)
<b>Total Core Domestic .....</b>	<b>18,123</b>	<b>12,424</b>	<b>7,114</b>	<b>19,065</b>	<b>12,869</b>	<b>7,692</b>	<b>(4.9)</b>	<b>(3.5)</b>	<b>(7.5)</b>
International Wholesale .....	1,393	1,393	—	1,569	1,569	—	(11.2)	(11.2)	—
<i>Eliminations .....</i>	<i>(484)</i>	<i>(276)</i>	<i>—</i>	<i>(566)</i>	<i>(322)</i>	<i>—</i>			
<b>Total Domestic .....</b>	<b>19,032</b>	<b>13,541</b>	<b>7,114</b>	<b>20,068</b>	<b>14,116</b>	<b>7,692</b>	<b>(5.2)</b>	<b>(4.1)</b>	<b>(7.5)</b>

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

The performance of the major business areas was as follows:

- Revenues from Fixed Telecommunications

Fixed-line telecommunications revenues were 13,541 million euros in 2011, a decrease of 575 million euros compared to 2010, or -4.1%. Such decrease is largely attributable to the reduction in retail accesses, which at December 31, 2011 totalled 14.7 million lines (-4.6% compared to 15.4 million lines at December 31, 2010), but which decline is slowing – due to sales policies aimed at maintaining and recapturing customers – even though the market as a whole features a general decline. With respect to broadband services, conversely, sales were stable due to a client portfolio that remained the same year on year in a market environment identified with fierce competition. The total broadband portfolio was 9.1 million accesses (+31,000 compared to December 31, 2010), of which 7.1 million were retail accesses, with a market share of 53%, down from 2010 (-1.8 percentage points), and 2.0 million wholesale accesses.

The following table sets forth revenues by major areas of business in fixed telecommunication:

	Year ended December 31,					
	2011		2010		Change	
		%		%		%
	(millions of euros, except percentages)					
Retail voice .....	5,681	41.9	6,133	43.4	(452)	(7.4)
Internet .....	1,688	12.5	1,751	12.4	(63)	(3.6)
Business data .....	1,617	11.9	1,655	11.7	(38)	(2.3)
Wholesale .....	4,155	30.7	4,171	29.5	(16)	(0.4)
Other .....	400	3.0	406	3.0	(6)	(1.5)
<b>Total Fixed-line Telecommunications Revenues .....</b>	<b>13,541</b>	<b>100.0</b>	<b>14,116</b>	<b>100.0</b>	<b>(575)</b>	<b>(4.1)</b>

- Revenues from Mobile Telecommunications

Although revenues in the mobile sector continue to fall, the sector is displaying a structural improvement in sales performance which confirms the merit of the repositioning strategy adopted for the mobile business: the customer base totalled about 32.2 million lines and grew from the end of 2010 by 1.2 million mainly in light of higher acquisitions and stable churn rates (21.9% compared to 22.0% in 2010).

Mobile telecommunications revenues were 7,114 million euros in 2011, a decrease of 578 million euros compared to 2010 (-7.5%), with a progressive and improving trend compared to the same period of 2010 (-2.2% in the fourth quarter of 2011; -6.5% in the third; -7.6% in the second and -12% in the first).



The following table shows the trend of revenues in the major areas of business in mobile telecommunication:

	Year ended December 31,					
	2011		2010		Change	
		%		%		%
(millions of euros, except percentages)						
Outgoing voice .....	3,600	50.6	4,033	52.4	(433)	(10.7)
Incoming voice .....	1,117	15.7	1,358	17.7	(241)	(17.7)
VAS (value-added services) .....	2,038	28.6	2,045	26.6	(7)	(0.3)
Handsets .....	359	5.1	256	3.3	103	40.2
<b>Total Mobile Telecommunications Revenues .....</b>	<b>7,114</b>	<b>100.0</b>	<b>7,692</b>	<b>100.0</b>	<b>(578)</b>	<b>(7.5)</b>

### Operating profit (loss)

Operating profit (loss) was a loss of 1,945 million euros in 2011, a decrease of 7,107 million euros compared to 2010. In particular, operating loss in 2011 includes the goodwill impairment charge of 7,307 million euros relating to the Core Domestic cash-generating unit, recorded on the basis of the results of the impairment test as described above.

The operating profit (loss) was impacted by the change in the following line items.

	Year ended December 31,			
	2011	2010	Change	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Acquisition of goods and services .....	6,766	7,131	(365)	(5.1)
Employee benefits expenses .....	2,987	3,473	(486)	(14.0)
Other operating expenses .....	778	709	69	9.7

In detail:

- **acquisition of goods and services:** decreased by 365 million euros (-5.1%) compared to 2010. Such decrease is mainly due to a decrease in the amounts to be paid to other operators, owing principally to the reduction in mobile termination rates. The higher expense for certain items, such as energy and variable costs related to product/service sales, has been absorbed by efficiency measures applied to fixed operating costs;
- **employee benefits expenses:** decreased by 486 million euros compared to 2010, attributable mainly to the reduction in the average number of employees in the salaried workforce (-3,529 compared to 2010, of whom -1,188 are under "solidarity contracts" at Telecom Italia S.p.A. and SSC—Shared Service Center S.r.l.), as well as a reduction (110 million euros) deriving from the actuarial effects regarding employee severance indemnities in connection with the change in the economic assumptions (discount rate and inflation rate) and also the new law on pensions (Law 214 of December 22, 2011) which extends the retirement age. It should be noted that employee benefits expenses in 2010 included a total of 254 million euros for the start by the Parent, Telecom Italia, SSC—Shared Service Center S.r.l. and Telecom Italia Sparkle of the mobility procedure under Law 223/91. In 2011, the provisions were adjusted by only 12 million euros, of which 9 million euros is for the Parent, Telecom Italia, and 3 million euros for SSC—Shared Service Center S.r.l.;
- **other operating expenses:** rose by 69 million euros compared to 2010, mainly due to the increase in expenses and provision charges connected with credit management and credit risks, particularly related to Business clientele reflecting the general weak economic conditions.

The goodwill impairment charge of the Core Domestic CGU (7,307 million euros in 2011), was due to the result of the impairment test conducted at June 30, 2011 (impairment loss of 3,182 million euros) and at December 31, 2011 (impairment loss of 4,125 million euros), using the same method adopted in previous impairment tests. Macroeconomic and market conditions reflected a slowdown in the higher growth emerging economies and fears of a recession in many mature economies, in particular countries in the Euro zone, which has been particularly acute in the domestic market. Added to this was an escalation, in the second half of the year, of financial market

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pressures, with particular reference to higher interest rates paid by the Italian government for issuing debt. The impairment test therefore took into account the deterioration of the financial markets in general terms, with reference to interest rates, while worsening expectations regarding the market prospects of the Domestic and Media Business Unit were major factors in making the determination of impairment.

Further details are provided in the Note "Goodwill" of the Notes to the Consolidated Financial Statements included elsewhere herein.

### Capital expenditures

Capital expenditures were 4,200 million euros, up 1,094 million euros compared to 2010. The increase was due to the acquisition of the user rights for 800, 1800 and 2600 MHz LTE frequencies, to be used for broadband mobile communication services, for a total of 1,223 million euros. This follows the auction by the Ministry of Economic Development which took place in the second half of the year. The user rights, formally awarded by the Ministry on October 3, 2011, were assigned in February 2012.

The percentage of capital expenditures to revenues is 22.1%; excluding the acquisition of the above user rights for the LTE frequencies, the ratio is 15.6%, basically in line with 2010 (15.5%).

### Employees

Employees are 55,389 as of December 31, 2011, a reduction of 1,141 units compared to December 31, 2010.

#### ❖ BRAZIL

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

	Year ended December 31,					
	2011	2010	2011	2010	Changes	
	(millions of euros, except percentages and employees)		(a)	(b)	(a-b)	%
			(millions of Brazilian reais, except percentages and employees)			
Revenues .....	7,343	6,199	17,086	14,457	2,629	18.2
Operating profit .....	986	685	2,294	1,597	697	43.6
● % of Revenues .....	13.4	11.0	13.4	11.0		
Capital expenditures .....	1,290	1,216	3,002	2,836	166	5.9
Employees at year-end (units) .....	10,539	10,114	10,539	10,114	425	4.2

### Revenues

Revenues totaled 17,086 million Brazilian reais, an increase of 2,629 million Brazilian reais compared to 2010 (+18.2%).

Service revenues in 2011 were 15,353 million Brazilian reais, an increase of 1,782 million Brazilian reais compared to 13,571 million Brazilian reais in the prior year (+13.1%); product revenues increased from 886 million Brazilian reais in 2010 to 1,733 million Brazilian reais in 2011 (+95.6%), reflecting the strategy to penetrate the market with high-value smartphones and webphones as leverage for the development of mobile data services.

The monthly ARPU, or average revenue per user, was 21.4 Brazilian reais at December 2011 compared to 23.7 Brazilian reais at December 2010 (-9.8%).

Total mobile lines at December 31, 2011 were 64.1 million, an increase of 25.6% over December 31, 2010, corresponding to a 26.5% market share of mobile lines.

### Operating profit

Operating profit was 2,294 million Brazilian reais in 2011, an increase of 697 million Brazilian reais compared to 2010. This improvement in operating profit was attributable to the increase of revenues partnered by operating efficiencies achieved on the front of industrial cost, employees benefit expenses and trade receivables management.

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Operating profit also was positively impacted by lower depreciation and amortization charges of 259 million Brazilian reais (2,335 million Brazilian reais in 2011, compared to 2,594 million Brazilian reais in 2010). In particular, the reduction in amortization was partly due to the revision of the useful life of software (+166 million Brazilian reais) carried out in 2010 and partly to reduced use of handset subsidies during 2011.

Changes in costs are explained as follows:

- *acquisition of goods and services* totaled 10,234 million Brazilian reais (8,208 million Brazilian reais in 2010). The increase of 24.7% compared to the prior year (+2,026 million Brazilian reais) was the result of higher rent and lease costs of 184 million Brazilian reais, higher external service costs of 220 million Brazilian reais, higher purchases of raw materials, auxiliaries, consumables and merchandise for 1,259 million Brazilian reais (of which +985 million Brazilian reais is product cost) and a higher portion of revenues to be paid to other TLC operators of 363 million Brazilian reais;
- *employee benefits expenses*, amounted to 747 million Brazilian reais, increasing 88 million Brazilian reais compared to 2010 (+13.4%). The average number of employees increased from 8,727 in 2010 to 9,194 in 2011. The percentage of employee benefits expenses to revenues was 4.4%, decreasing 0.2 percentage points compared to 2010; and
- *other operating expenses*, amounted to 1,738 million Brazilian reais in 2011, an increase of 26.8% (1,371 million Brazilian reais in 2010). Such expenses consisted of the following:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of Brazilian reais, except percentages)			
Writedowns and expenses in connection with credit management .....	232	311	(79)	(25.4)
Accruals to provisions .....	140	41	99	—
TLC operating fees .....	1,290	961	329	34.2
Indirect duties and taxes .....	33	26	7	26.9
Sundry expenses .....	43	32	11	34.4
<b>Total .....</b>	<b>1,738</b>	<b>1,371</b>	<b>367</b>	<b>26.8</b>

### Capital expenditures

Capital expenditures were 3,002 million Brazilian reais in 2011, an increase of 166 million Brazilian reais compared to 2010. The success of the new sales strategy has brought a gradual reduction in the portion of subscriber acquisition costs capitalized and an increase in the expenditures dedicated to network infrastructures so as to sustain the growth of voice and data traffic.

### Employees

Employees were 10,539 at December 31, 2011, an increase of 425 people compared to December 31, 2010 (10,114 units).

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## ❖ ARGENTINA

The following table gives the main results reported by the Argentina Business Unit for the entire year 2011 and, for 2010, starting from the acquisition date of control of the Business Unit by the Telecom Italia Group (October 13, 2010). The amounts presented include the effects of the application of the purchase price method. Specifically, all the assets and liabilities of the Sofora group were measured for their recognition at fair value at the acquisition date. Such amounts, as required by IFRS, were adjusted by the definitive amounts determined during the course of 2011, within 12 months of the acquisition date. The income statement for the 12 months of 2011 thus includes the effects of such measurements and particularly the higher amortization and depreciation related thereto (equal to 858 million Argentine pesos, about 149 million euros, in 2011). Such higher amortization and depreciation in 2010 only had an impact from October 13, 2010 and amounted to 221 million Argentine pesos (about 43 million euros).

	Year ended December 31, 2011		Period from October 13, 2010 to December 31, 2010	
	(millions of euros, except percentages and employees)	(millions of Argentine pesos, except percentages and employees)	(millions of euros, except percentages and employees)	(millions of Argentine pesos, except percentages and employees)
Revenue .....	3,220	18,496	798	4,142
Operating profit .....	509	2,925	110	568
% of Revenues .....	15.8	15.8	13.7	13.7
Capital Expenditures .....	556	3,192	188	975
Employees at year-end (unit)(*) .....	16,350	16,350	15,650	15,650

(\*) Includes employees with temporary work contracts: 1 and 18 as of December 31, 2011 and 2010, respectively.

For a better understanding of the performance of the Argentina Business Unit, the following table sets out certain selected financial data for the full year 2011 compared to the full year 2010. The 2010 full year data are unaudited and provided solely for information purposes (illustrative and comparative) and were only part of the consolidated results of the Telecom Italia Group from October 13, 2010, the date of acquisition of control by the Telecom Italia Group.

	Year ended December 31,					
	2011	2010	2011	2010	Changes	
	(millions of euros, except percentages and employees)		(a)	(b)	(a-b)	%
			(millions of Argentine pesos, except percentages and employees)			
Revenues .....	3,220	2,820	18,496	14,627	3,869	26.5
Operating profit .....	509	553	2,925	2,868	57	2.0
% of Revenues .....	15.8	19.6	15.8	19.6		
Capital expenditures .....	556	493	3,192	2,558	634	24.8
Employees at year-end (units)(*) .....	16,350	15,650	16,350	15,650	700	4.5

(\*) Includes employees with temporary work contracts: 1 and 18 as of December 31, 2011 and 2010, respectively.

## Revenues

Revenues were 18,496 million Argentine pesos in 2011, an increase of 26.5% compared to the prior year (14,627 million Argentine pesos in 2010). The increase was mainly due to the growth of the customer base in the fixed and broadband businesses as well as mobile businesses, in addition to the higher ARPU. The main source of revenues for the Argentina Business Unit was mobile telephony which accounts for 71% of consolidated revenues, an increase of 32% in 2011 compared to 2010.

## Operating profit

Operating profit rose by 57 million Argentine pesos (+2.0%) to 2,925 million Argentine pesos in 2011. It included the effects of the application of the purchase price method which led to higher net expenses, mainly for

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amortization and depreciation, for a total of 907 million Argentine pesos (about 158 million euros); such higher expenses had an effect on the 2010 results from October 13, 2010 only and amounted to 281 million Argentine pesos (about 54 million euros).

Changes in costs are explained as follows:

- acquisition of goods and services: totalled 8,031 million Argentine pesos (6,201 million Argentine pesos in 2010). The increase of 29.5% compared to the prior year (+1,830 million Argentine pesos) was mainly due to higher outside service costs of 932 million Argentine pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 777 million Argentine pesos;
- employee benefits expenses, of 2,746 million Argentine pesos, increased by 716 million Argentine pesos compared to 2010 (+35.3%). The change came from salary increases, as a result of periodical revisions in union agreements and largely connected to inflation. In addition, the average number of employees in the mobile area increased. The percentage of employee benefits expenses to total revenues was 14.8%, increasing 0.9 percentage points over 2010;
- other operating expenses: amounted to 1,903 million Argentine pesos, increasing 23.7% (1,538 million Argentine pesos in 2010). Such expenses consisted of the following:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of Argentine pesos, except percentages)			
Impairments and expenses in connection with credit management .....	169	115	54	47.0
TLC operating fees .....	348	273	75	27.5
Indirect duties and taxes .....	1,286	1,064	222	20.9
Sundry expenses .....	100	86	14	16.3
<b>Total .....</b>	<b>1,903</b>	<b>1,538</b>	<b>365</b>	<b>23.7</b>

### Capital expenditures

Capital expenditures were 3,192 million Argentine pesos in 2011, increasing 24.8% compared to 2010. Such amount includes 746 million Argentine pesos for the capitalization of customer acquisition costs for the subscription of binding 18 month contracts for mobile customers and 12 month contracts for broadband customers.

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

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

### Employees

Employees were 16,350 at December 31, 2011, an increase of 700 units compared to December 31, 2010 (+4.5%).

## ❖ MEDIA

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	238	258	(20)	(7.8)
Operating profit (loss) .....	(87)	(92)	5	5.4
● % of Revenues .....	(36.6)	(35.7)		
Capital expenditures .....	61	67	(6)	(9.0)
Employees at year-end (units) .....	<u>765</u>	<u>777</u>	<u>(12)</u>	<u>(1.5)</u>

Revenues were 238 million euros in 2011, marking a decrease of 20 million euros (-7.8%) compared to 258 million euros in 2010. In greater detail:

- revenues of TI Media—La7 in 2011, amounted to 140 million euros, increasing 24 million euros (+21.0%) compared to 2010, due to the significant increase of 32.1% in overall gross advertising sales in 2011 compared to 2010, which amounted to 186 million euros. In 2011, advertising sales were positively influenced by the excellent audience performance of the La7 channel, which reported an average daily audience share of 3.8%, and the La7d channel, with net advertising sales amounting to 6 million euros;
- MTV Group revenues were 74 million euros in 2011, decreasing by 24 million euros compared to 2010 (98 million euros). This result was mainly due to:
  - the decrease in net advertising sales of 9 million euros;
  - lower revenues of Playmaker (-7 million euros);
  - lower revenues of MTV Mobile (-2 million euros), due to the contractual amendment at the end of 2010; and
  - the decrease in the revenues from the music satellite channels (-2 million euros) following the renegotiation of the contract—at lower values—with Sky;
- revenues from Network Operator activities, amounted to 55 million euros in 2011, compared to 76 million euros in 2010, down by 21 million euros. This result was partly due to the loss of turnover of the customer Dahlia (-26 million euros), whose activities were discontinued at early 2011. The decrease in revenues from analog business towards the Group, in relation to the switch-off process, was offset by higher revenues for the lease of the digital band on its Multiplexes.

### Operating profit

Operating profit was an operating loss of 87 million euros in 2011, a reduction of 5 million euros compared to a loss of 92 million euros in 2010, due to the contribution of 21 million euros related to the indemnity for the early termination of the Competence Center contract. In particular:

- the operating profit of Telecom Italia Media—La7, which includes the above mentioned 21 million euros indemnity, was a negative loss of 29 million euros, an improvement of 34 million euros compared to 2010 (an operating loss of 63 million euros); such result was affected by the higher contribution of revenues as previously described, which more than offset the higher operating costs linked largely to the programming of La7 and La7d channels;
- the operating profit of the MTV Group was down in 2011, marking a decrease of 5 million euros compared to 2010, due to the reduction in sales only partially offset by the containment of operating costs;
- the Network Operator's operating profit was a negative 2 million euros compared to a profit of 10 million euros in 2010, a decrease of 12 million euros; this performance was affected by the above-mentioned revenue decline from Dahlia TV, which was partially offset by a reduction in operating costs achieved through a greater efficiency of the network management.

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As a result of the impairment test, the goodwill of the Media Business Unit was written down by 57 million euros in 2011 (46 million euros in 2010).

### Capital expenditures

Capital expenditures amounted to 61 million euros in 2011 (67 million euros in 2010). Such expenditures were attributed to Telecom Italia Media—La7 (31 million euros), the MTV group (4 million euros) and the Network Operator TIMB (26 million euros), mostly for the acquisition of television rights extending beyond one year (29 million euros) and the acquisition of infrastructures for the expansion and maintenance of the digital network (26 million euros) primarily related to the conversion to digital of TIMB networks in the regions in which the switch-off of analog TV has occurred.

### Employees

Employees were 765 at December 31, 2011, a decrease of 12 units compared to December 31, 2010 (777 units), included 37 units with temporary work contracts (44 units at December 31, 2010). Without considering the reduction in the temporary staff (7 units), the decrease of 5 units was due to the change both in the number of fixed term employees, who decreased by 10 units (TI Media—La7 +1, MTV Group -11) and employees with indefinite-term contracts, who increased by 5 units (TI Media-La7 +15, Network Operator -1, MTV Group -9). In particular the increase of 15 units for the indefinite-term employees of TI Media—La7 is mainly due to the stabilization of some job relationship and to the introduction of some new human resources as consequence of the internalization process regarding External Relations.

### ❖ OLIVETTI

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages and employees)				
Revenues .....	343	391	(48)	(12.3)
Operating profit (loss) .....	(41)	(24)	(17)	(70.8)
● % of Revenues .....	(12.0)	(6.1)		
Capital expenditures .....	5	5	—	—
Employees at year-end (units) .....	<u>1,075</u>	<u>1,090</u>	<u>(15)</u>	<u>(1.4)</u>

### Revenues

Revenues were 343 million euros in 2011, a decrease of 48 million euros compared to 2010, partly due to the negative exchange rate effect of 3 million euros. The market context was particularly depressed for the third consecutive year and the deterioration of the Italian and European macroeconomic condition had an adverse effect on 2011; this caused a decisive fall in ICT expenditures in Italy.

The weak economy resulted in a sharp reduction in sales to the Parent, Telecom Italia by Olivetti S.p.A. (-23 million euros compared to 2010) and is reason in itself for almost half of the decline in year-over-year revenues.

Sales in Italy in the indirect channel came to an abrupt stop in the last part of 2011 (-6 million euros compared to 2010) in parallel with the heightening of the crisis which particularly hit hard the SMEs and professional offices customer channel; conversely, the direct sales channel in Italy of large customers exceeded 2010 (+4 million euros), in part due to the positive contribution of new service offers.

European sales were up in the French and British affiliates, a fall in both the German affiliate (since January 2012, sales operations are conducted through a local agency) and in the Spanish affiliate which was materially



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impacted by the weak macroeconomic climate in that country. Revenues were stable in the international sales channel (sales to extra EU and extra Latin America customers). The gains made by South America in sales were significant. This market is recording strong growth such that expectations are for a strengthening of Olivetti's presence there.

### Operating profit

Operating profit was a negative 41 million euros, with a negative change of 17 million euros compared to 2010.

In 2011, as an increase in share capital, Telecom Italia S.p.A. contributed trademarks (12 million euros) and patents (4 million euros) to Olivetti S.p.A. The result of this contribution was the resolution of contracts with Telecom Italia which covered the utilization of these rights, with a negative impact of 10 million euros.

Added to this first effect were lower margins of 10 million euros associated with the decline in revenues, of which, about 4 million euros in particular was the effect of the ongoing contraction in the ink-jet segment.

### Capital expenditures

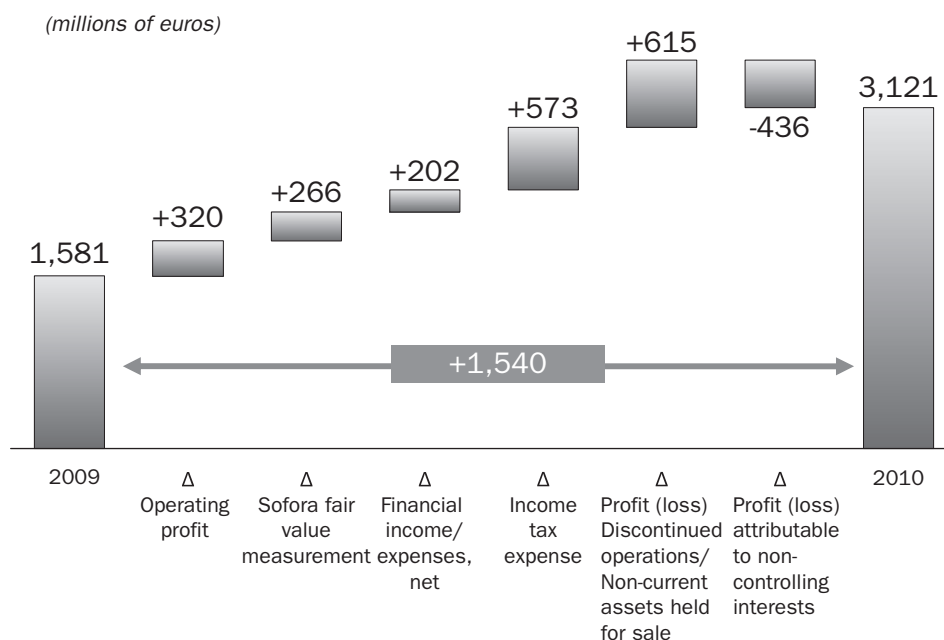
Capital expenditures amounted to 5 million euros, unchanged compared to the prior year.

### Employees

Employees at December 31, 2011 were 1,075 (984 in Italy and 91 outside Italy), a reduction of 15 compared to December 31, 2010 (1,090, of whom 1,001 in Italy and 89 outside Italy). During the year, 33 persons were added and 48 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

## 5.2.8 YEAR ENDED DECEMBER 31, 2010 COMPARED WITH YEAR ENDED DECEMBER 31, 2009

The following chart summarizes the main items which impacted profit attributable to owners of the Parent in 2010:



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## ❖ REVENUES

**Revenues** amounted to 27,571 million euros in 2010, an increase of 677 million euros, or 2.5%, compared to 26,894 million euros in 2009.

The table below sets forth for the periods indicated by Business Unit gross revenues and consolidated revenues.

	Year ended December 31,					
	2010		2009		Changes	
	Revenues(1)	% of Consolidated Revenues	Revenues(1)	% of Consolidated revenues	(a-b)	%
	(a)	(b)	(b)			
	(millions of euros, except percentages)					
Domestic .....	20,068	72.8	21,663	80.5	(1,595)	(7.4)
● <i>Core Domestic</i> .....	19,065	69.1	20,580	76.5	(1,515)	(7.4)
● <i>International Wholesale</i> .....	1,569	5.7	1,710	6.4	(141)	(8.2)
Brazil .....	6,199	22.5	4,753	17.7	1,446	30.4
Media, Olivetti and Other Operations(2) ...	713	2.6	670	2.5	43	6.4
<i>Adjustments and eliminations</i> .....	(199)	(0.8)	(192)	(0.7)	(7)	(3.6)
Total Revenues (Argentina excluded) .....	26,781	97.1	26,894	100.0	(113)	(0.4)
Argentina .....	798	2.9	—	—	798	—
<i>Adjustments and eliminations</i> .....	(8)	—	—	—	(8)	—
<b>Total Revenues</b> .....	<b>27,571</b>	<b>100.0</b>	<b>26,894</b>	<b>100.0</b>	<b>677</b>	<b>2.5</b>

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The 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.

Revenues in the **Domestic Business Unit** (divided into Core Domestic and International Wholesale) declined by 7.4% compared to 2009. The decrease in service revenues, in particular in the mobile area, comes from the significant investment made to reposition TIM's rate plans to become more competitive and regain market share. The resulting lower tariffs were not recovered through higher volumes. The decline in the fixed line business represents a continuation of the trend in declining revenues for the traditional fixed line businesses. Handset sales in the mobile business posted a slight decline but with an improving trend in the fourth quarter owing to the launch in the last part of the year of new internet plans which boosted the sale of handsets (smartphones and tablets) that can be used with the new internet services.

With respect to the **Brazil Business Unit**, revenues totaled 6,199 million euros in 2010, an increase of 1,446 million euros compared to 2009. Service revenues increased driven by the growth in the customer base (+9.9 million lines compared to the end of 2009), while handset revenues declined due to lower sales.

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

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#### ❖ OTHER INCOME

Details are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Late payment fees charged for telephone services .....	72	71	1	1.4
Recovery of employee benefit expenses, purchases and services rendered .....	47	46	1	2.2
Capital and operating grants .....	38	49	(11)	(22.4)
Damage compensations, penalties and sundry recoveries .....	18	30	(12)	(40.0)
Sundry income .....	80	84	(4)	(4.8)
<b>Total other income .....</b>	<b>255</b>	<b>280</b>	<b>(25)</b>	<b>(8.9)</b>

#### ❖ OPERATING EXPENSES

Our operating expenses amounted to 22,008 million euros in 2010, an increase of 327 million euros, or 1.5% compared to 21,681 million euros in 2009. The increase is attributable to the following:

- **Acquisition of goods and services** amounted to 11,383 million euros in 2010, a decrease of 97 million euros, or -0.8% compared to 2009 (11,480 million euros). The reduction would have been considerably higher (-974 million euros), if the effect of the entry of the Argentina Business Unit in the scope of consolidation was excluded (impact of +347 million euros in 2010) and the strengthening of the Brazilian reais against the Euro was also excluded (+530 million euros). The decrease in 2010 over 2009 is mainly in the Domestic Business Unit, in particular due to reduced costs of acquisition of raw materials and merchandise and lower revenues to be paid to other operators and interconnection costs.

In detail:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
Purchase of goods .....	1,568	1,852	(284)	(15.3)
Portion of revenues to be paid to other operators and interconnection costs ...	4,275	4,282	(7)	(0.2)
Commercial and advertising costs .....	2,100	2,012	88	4.4
Power, maintenance and outsourced services .....	1,258	1,254	4	0.3
Rent and leases .....	594	572	22	3.8
Other service expenses .....	1,588	1,508	80	5.3
<b>Total acquisition of goods and services .....</b>	<b>11,383</b>	<b>11,480</b>	<b>(97)</b>	<b>(0.8)</b>
<i>% on Revenues .....</i>	<i>41.3</i>	<i>42.7</i>		

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## ● Employee benefits expenses

In detail:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages)				
<b>Employee benefits expenses—Italian companies:</b>				
● Ordinary expenses of employees .....	3,313	3,467	(154)	(4.4)
● Expenses for collective redundancy procedure ("mobilità") under Law 223/91 .....	258	—	258	
<b>Total employee benefits expenses—Italian companies .....</b>	<b>3,571</b>	<b>3,467</b>	<b>104</b>	<b>3.0</b>
<b>Total employee benefits expenses—Foreign companies .....</b>	<b>450</b>	<b>267</b>	<b>183</b>	<b>68.5</b>
<b>Total employee benefits expenses .....</b>	<b>4,021</b>	<b>3,734</b>	<b>287</b>	<b>7.7</b>
<b>% on Revenues .....</b>	<b>14.6</b>	<b>13.9</b>		

The decrease of 154 million euros in the Italian component of ordinary employee benefit expenses was mainly due to lower costs arising from the reduction in the average number of the salaried workforce (3,237 less units compared to 2009, of which 565 units refer to the application of the so-called Solidarity Contracts for Telecom Italia S.p.A. and Shared Service Center S.r.l.). For further information about Solidarity Contracts please see "Item 6 Directors, Senior Management and Employees—6.5 Employees—6.5.2 Industrial Relations".

Total employee benefit expenses for Italian Companies increased by 104 million euros in 2010 over 2009 due to expenses for collective dismissal agreements under Law 223/91 (258 million euros), mainly related to the Parent Telecom Italia S.p.A. (245 million euros), following the August 4, 2010 Agreement signed with the labor unions. The agreement outlines the steps to be taken on employment levels during the years of the Business Plan 2010–2012, with the expectation, among other things, of recourse to a new voluntary collective redundancy procedure for 3,900 people in the period 2010-2012.

In determining the amount of the provision charge, account was taken of the valuation of the cost of the new mobilità procedure and the estimate of the higher unemployment allowances for those terminated under the pre-June 2010 collective redundancy procedure, due to the entering into force of governmental budget measures as a result of the postponement of the pension windows. Such expenses would be determined by the eventuality that the competent institutions would not issue an adjusting maneuver and that Telecom Italia, of necessity, would be required to safeguard the effectiveness of the agreements that have already been reached.

The remaining amount of unemployment allowances (13 million euros) relates to the mobilità procedures under Law 223/91 signed with the labor unions by the following companies:

- Shared Service Center, on November 16, 2010 (2 million euros);
- Telecom Italia Sparkle, on December 7, 2010 (7 million euros);
- Olivetti, on September 30, 2010 (3 million euros);
- Olivetti I-Jet, on January 11, 2010 and Advalso on March 8, 2010 (1 million euros in total).

Total employee benefits expenses—foreign companies increased by 183 million euros mainly due to the entry of the Argentina Business Unit in the scope of consolidation as of October 13, 2010 (114 million euros in 2010) and the strengthening of the Brazilian Real against the Euro for the Brazil Business Unit (+ 39 million euros).

The Group's average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(equivalent number, except percentages)			
Average salaried workforce—Italy .....	57,087	60,324	(3,237)	(5.4)
Average salaried workforce—Foreign(1) .....	13,063	9,640	3,423	35.5
<b>Total average salaried workforce(2) .....</b>	<b>70,150</b>	<b>69,964</b>	<b>186</b>	<b>0.3</b>
Non-current assets held for sale—Foreign(3) .....	—	2,168	(2,168)	
<b>Total average salaried workforce—including Non-current assets held for sale (2) .....</b>	<b>70,150</b>	<b>72,132</b>	<b>(1,982)</b>	<b>(2.7)</b>

- (1) The 2010 average salaried workforce includes the effect of the inclusion in the scope of consolidation of the Argentina Business Unit starting from October 13, 2010.
- (2) The total includes people with temporary work contracts: 84 average employees in 2010 (of which 68 average employees in Italy and 16 average foreign employees); 316 average units in 2009 (of which 279 average employees in Italy and 37 average foreign employees).
- (3) The 2009 data include the average salaried headcount of HanseNet, sold at the beginning of 2010.

Group's employees at December 31, 2010 and 2009 were as follows:

	As of December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(units, except percentages)			
Employees—Italy .....	58,045	60,872	(2,827)	(4.6)
Employees—Foreign .....	26,155	10,512	15,643	148.8
<b>Total Employees (1) .....</b>	<b>84,200</b>	<b>71,384</b>	<b>12,816</b>	<b>18.0</b>
Discontinued operations(2)—Foreign .....	—	2,205	(2,205)	(100.0)
<b>Total Employees—including Non-current assets held for sale(2) .....</b>	<b>84,200</b>	<b>73,589</b>	<b>10,611</b>	<b>14.4</b>

- (1) Includes employees with temporary work contracts: 71 units at December 31, 2010 and 56 units at December 31, 2009.
- (2) The data as of December 31, 2009 include salaried headcount of HanseNet, sold at the beginning of 2010.

The increase of foreign employees as of December 31, 2010 with respect to December 31, 2009 was principally due to the entry in the scope of consolidation of the Business Unit Argentina (15,650 units as of December 31, 2010).

## ● Other operating expenses

Details are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management ....	478	565	(87)	(15.4)
Accruals to provisions .....	80	168	(88)	(52.4)
Indirect duties and taxes .....	200	128	72	56.3
TLC operating fees .....	484	318	166	52.2
Penalties, compensation and administrative sanctions .....	105	73	32	43.8
Association dues and fees, donations, scholarships and traineeships .....	24	26	(2)	(7.7)
Sundry expenses .....	51	67	(16)	(23.9)
<b>Total other operating expenses .....</b>	<b>1,422</b>	<b>1,345</b>	<b>77</b>	<b>5.7</b>
<b>% on Revenues .....</b>	<b>5.2</b>	<b>5.0</b>		

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

In particular:

- impairments and expenses in connection with credit management included 317 million euros attributable to the Domestic Business Unit (404 million euros in 2009) and 133 million euros attributable to the Brazil Business Unit (153 million euros in 2009);
- accruals to provisions recorded mainly related to pending disputes, including 53 million euros attributable to the Domestic Business Unit (136 million euros in 2009) and 18 million euros attributable to the Brazil Business Unit (25 million euros in 2009).

The increase of 166 million euros in TLC operating fees related principally to the Brazil Business Unit which increased in part due to the strengthening of the Brazilian real against the euro with an effect of +50 million euros.

Penalties, compensation and administrative sanctions increased by 32 million euros, from 73 million euros in 2009 to 105 million euros in 2010. This increase was attributable in part to the Domestic Business Unit, which incurred indirect duties and taxes including expenses of 15.6 million euros for the payment, made during the year, of VAT relating to invoices for the period 2005-2009 for exports to operators in San Marino where the tax documentation was found to be incomplete.

#### ● Depreciation and Amortization

Details are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life .....	2,216	2,251	(35)	(1.6)
Depreciation of tangible assets—owned and leased .....	3,326	3,300	26	0.8
<b>Total depreciation and amortization .....</b>	<b>5,542</b>	<b>5,551</b>	<b>(9)</b>	<b>(0.2)</b>
<i>% on Revenues .....</i>	<i>20.1</i>	<i>20.6</i>		

Amortization and depreciation charges were essentially unchanged between 2010 and 2009. However, total depreciation and amortization in 2010 was affected primarily by the inclusion of the Business Unit Argentina in the scope of consolidation (+140 million euros in 2010) and higher charges by the Brazil Business Unit (+72 million euros), offset by the reduction in amortization and depreciation charges attributable the Domestic Business Unit (-207 million euros).

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

Net gains on disposals of non-current assets were 11 million euros in 2010 (59 million euros of net losses on disposal of non-current assets in 2009) and include:

- a gain, net of the related transaction costs, of 19 million euros, in connection with the completion of the Elettra sales transactions, realized through the sale of one of the ships and the subsequent disposal of the investment by the Domestic Business Unit—International Wholesale;
- a gain, net of the related transaction costs, of approximately 1 million euros, in connection with the completion of the BBNed N.V. sales transactions finalized on October 5, 2010;
- other net losses on disposals of non-current assets, for a total of 9 million euros.

In 2009, net losses on disposals of non-current assets were 59 million euros, including 39 million euros for the final divestiture of the credit management software developed for the fixed consumer clientele of the Domestic Business Unit and 11 million euros on the sale of a 60% stake in Telecom Media News S.p.A.

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- **Impairment losses on non-current assets** amounted to 63 million euros in 2010 (12 million euros in 2009) and included 46 million euros for the impairment of the goodwill allocated to the Media Business Unit. The impairment was based on the results of the impairment test. The remaining amount includes the writedowns of intangible and tangible assets and the provision charge for expenses connected with the transactions for the sale of BBNet and Elettra.

#### ❖ OPERATING PROFIT

**Operating profit** was 5,818 million euros in 2010, an increase of 325 million euros compared to 2009 (+ 5.9%). As a percentage of revenues, operating profit was 21.1% in 2010 (20.4% in 2009).

#### ❖ SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
EtecSA (Cuba) .....	84	54	30	55.6
Other .....	15	13	2	15.4
<b>Total</b> .....	<b>99</b>	<b>67</b>	<b>32</b>	<b>47.8</b>

The investment in ETECSA (Cuba) has been classified in Non-current assets held for sale starting from October 2010. As a consequence, the investment value includes not only the share of results up to September 30, 2010 but also an impairment reversal of 30 million euros, recorded up to the limit of the impairment losses recorded previously. Such reversal was made in accordance with IFRS 5 following the agreements reached at the end of 2010 for the sale of the investment. The sale was finalized on January 31, 2011.

For further details about the above mentioned investments accounted for using the equity method please see "Note—Other Non-current assets" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### ❖ OTHER INCOME (EXPENSES) FROM INVESTMENTS

Details are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Dividends from other investments .....	2	2	—	—
Net gains on disposal of other investments .....	30	4	26	650
Sofora revaluation, net of the reversal of the negative exchange rate reserve .....	266	—	266	—
Writedowns of Italtel group .....	—	(39)	39	—
Writedowns of other investments .....	(9)	(18)	9	50
<b>Total</b> .....	<b>289</b>	<b>(51)</b>	<b>340</b>	<b>667</b>

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



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

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

#### ❖ FINANCE INCOME (EXPENSES)

Details are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Fair value measurement of call options for 50% on Sofora Telecomunicaciones share capital. ....	—	60	(60)	(100.0)
Early termination of derivative instruments .....	(9)	22	(31)	(140.9)
Net finance expenses, fair value adjustments of derivatives and underlyings and other items .....	(2,065)	(2,252)	187	8.3
<b>Total</b> .....	<b>(2,074)</b>	<b>(2,170)</b>	<b>96</b>	<b>4.4</b>

The change in finance income (expenses) was impacted by the overall reduction in interest rates and the decrease in debt exposure, which reduced net finance expenses, fair value adjustments of derivatives and underlyings and other items by 187 million euros, from 2,252 million euros in 2009 to 2,065 million euros in 2010.

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.

#### ❖ INCOME TAX EXPENSE

Income tax expense amounted to 550 million euros, a decrease of 571 million euros compared to 1,121 million euros in 2009. Although, income taxes of the Parent, Telecom Italia S.p.A. remained stable, the Brazil Business unit had a tax benefit of about 700 million euros arising mainly from the recognition of deferred tax assets in connection with the recoverability of prior years tax loss carryforwards which became recoverable in 2010 on the basis of updated assessments of future taxable income of the companies in the Business Unit.

#### ❖ LOSS FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

In 2010, this line item was a loss of 7 million euros and included expenses incurred in connection with sales transactions of prior years, while 2009 (-662 million euros) included the impairment charge for the goodwill attributed to the broadband operations in Germany and also the contribution to the consolidated financial statements by HanseNet, sold at the beginning of 2010.

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## 5.2.9 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2010 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2009

### ❖ DOMESTIC

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	20,068	21,663	(1,595)	(7.4)
Operating profit .....	5,162	5,393	(231)	(4.3)
● % of Revenues .....	25.7	24.9		
Capital expenditures .....	3,106	3,515	(409)	(11.6)
Employees at year-end (units) .....	<u>56,530</u>	<u>59,367</u>	<u>(2,837)</u>	<u>(4.8)</u>

### ● Core Domestic

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues(1) .....	19,065	20,580	(1,515)	(7.4)
● Consumer .....	9,739	10,999	(1,260)	(11.5)
● Business .....	3,509	3,730	(221)	(5.9)
● Top .....	3,511	3,688	(177)	(4.8)
● National Wholesale .....	2,076	1,996	80	4.0
● Other .....	230	167	63	37.7
Operating profit .....	4,967	5,189	(222)	(4.3)
● % of Revenues .....	26.1	25.2		
Capital expenditures .....	3,027	3,427	(400)	(11.7)
Employees at year-end (units) .....	<u>55,475</u>	<u>58,098</u>	<u>(2,623)</u>	<u>(4.5)</u>

(1) Data are net of intersegment transactions.

For the year 2010, the following changes compared to 2009 are noted with regards to the market segments:

- **Consumer:** the decrease in revenues of the Consumer segment was 1,260 million euros (-11.5%), of which 1,003 million euros (-9.5%) related to service revenues and 257 million euros to product revenues. The decrease in service revenues was principally attributable to the contraction in traditional voice service revenues, particularly Fixed-line voice (-394 million euros, of which -212 million euros was attributable to traffic and -123 million euros to access revenues), and outgoing Mobile voice (-486 million euros). The mobile segment continues to be subject to fierce competition. In order to address this challenge new sales policies were introduced as early as the end of 2009 aimed at recovering competitiveness through packages offering clearer and more convenient rate plans. As a result of such actions during 2010, the decline in the customer base was halted, creating the basis for an improvement in the trend during 2011.

The decrease in sales was also attributable to lower Mobile termination revenues (-168 million euros, of which -111 million euros can be traced to the effect of the reduction in rates) and in text messaging revenues (-84 million euros, driven by the same factors indicated above for outgoing voice revenues). Internet services recorded a positive change compared to 2009, due to the continuing growth of both Fixed (+75 million euros of ADSL access revenues) and Mobile (+47 million euros) broadband services;

- **Business:** the Business segment recorded a decrease in revenues of 221 million euros (-5.9%). Despite the decrease, over the course of 2010 this segment gradually recovered compared to the previous quarters and considerably improved over the decline reported in the prior year (-9.6%). This improved performance, more marked in the fixed than the mobile area, was due to the marketing policies begun in the second half of

2009, especially with the ImpresaSemplice brand, geared to reducing the erosion of the fixed and mobile customer base and achieving a better quality of customer acquisitions. In the Fixed area, the customer base of voice accesses in 2010 is down by about 106,000 accesses, a decline that was lower than in 2009 (about -235,000 accesses), of which about 27,000 came in the fourth quarter. Broadband accesses grew by 67,000 (+38,000 in 2009) on an annual basis, including 12,000 in the fourth quarter. In the Mobile area, the annual increase was 294,000 lines, of which 73,000 was in the fourth quarter;

- **Top:** the Top segment recorded a decrease in revenues of 177 million euros (-4.8%) with a gradual improvement over the course of 2010 especially in the 4<sup>th</sup> quarter of 2010. Revenues in the Fixed area contracted 7.8% due to the difficulties affecting the Voice and Data areas as a result of the overall macroeconomic situation and the growing pressure on prices. The ICT area remained flat year to year on account of customized plans designed to meet client needs. In the Mobile area, revenues continued to grow (+7.8%) aided by the continuing expansion of the customer base and the increase in VAS (about +16.4%);
- **National Wholesale:** the increase in revenues (+80 million euros or +4.0%) was generated by the growth of the ANOs (Alternative Network Operators) in Local Loop Unbundling, Wholesale Line Rental and Bitstream.
- **International Wholesale**

	Year ended December 31,			
	2010	2009	Change	
	(a)	(b)	(a-b)	%
(millions of euros, except percentages and employees)				
Revenues .....	1,569	1,710	(141)	(8.2)
● <i>Of which third parties</i> .....	1,099	1,208	(109)	(9.0)
Operating profit .....	194	209	(15)	(7.2)
● <i>% of Revenues</i> .....	12.4	12.2		
Capital expenditures .....	82	122	(40)	(32.8)
Employees at year-end (units) .....	1,055	1,269	(214)	(16.9)

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

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In addition to the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below.

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

Market segment	Year ended December 31,								
	2010			2009			Change %		
	Total	Fixed (1)	Mobile (1)	Total	Fixed (1)	Mobile (1)	Total	Fixed (1)	Mobile (1)
	(millions of euros, except percentages)								
Consumer .....	9,739	4,674	5,275	10,999	5,037	6,251	(11.5)	(7.2)	(15.6)
Business .....	3,509	2,336	1,220	3,730	2,472	1,315	(5.9)	(5.5)	(7.2)
Top .....	3,511	2,724	887	3,688	2,956	823	(4.8)	(7.8)	7.8
National Wholesale .....	2,076	2,934	234	1,996	2,758	194	4.0	6.4	20.6
Other (support structures) .....	230	201	76	167	174	14	37.7	15.5	
<b>Total Core Domestic .....</b>	<b>19,065</b>	<b>12,869</b>	<b>7,692</b>	<b>20,580</b>	<b>13,397</b>	<b>8,597</b>	<b>(7.4)</b>	<b>(3.9)</b>	<b>(10.5)</b>
International Wholesale .....	1,569	1,569	—	1,710	1,710	—	(8.2)	(8.2)	—
<i>Eliminations .....</i>	<i>(566)</i>	<i>(322)</i>	<i>—</i>	<i>(627)</i>	<i>(368)</i>	<i>—</i>			
<b>Total Domestic .....</b>	<b>20,068</b>	<b>14,116</b>	<b>7,692</b>	<b>21,663</b>	<b>14,739</b>	<b>8,597</b>	<b>(7.4)</b>	<b>(4.2)</b>	<b>(10.5)</b>

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

The performance of the major business areas was as follows:

- **Revenues from Fixed Telecommunications**

In 2010, revenues of the fixed telecommunications area amounted to 14,116 million euros, decreasing by 623 million euros (-4.2%) compared to 2009.

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

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

The total broadband portfolio at December 31, 2010 was equal to approximately 9.1 million accesses (+317,000 accesses compared to December 31, 2009), of which wholesale accesses were over 1.9 million.

	Year ended December 31,					
	2010		2009		Change	
		%		%		%
	(millions of euros, except percentages)					
Retail Voice .....	6,133	43.4	6,804	46.2	(671)	(9.9)
Internet .....	1,751	12.4	1,707	11.6	44	2.6
Business Data .....	1,655	11.7	1,730	11.7	(75)	(4.3)
Wholesale .....	4,171	29.5	4,117	27.9	54	1.3
Other Revenues .....	406	3.0	381	2.6	25	6.6
<b>Total Revenues from Fixed Telecommunications .....</b>	<b>14,116</b>	<b>100.0</b>	<b>14,739</b>	<b>100.0</b>	<b>(623)</b>	<b>(4.2)</b>

- **Revenues from Mobile Telecommunications**

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

At December 31, 2010, the number of Telecom Italia mobile lines was approximately 31.0 million, an increase of 162,000 lines compared to December 31, 2009, following several years of decline.

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In detail the revenues by major area of business in Mobile telecommunications were as follows:

	Year ended December 31,					
	2010		2009		Change	
		%		%		%
	(millions of euros, except percentages)					
Outgoing voice .....	4,033	52.4	4,583	53.3	(550)	(12.0)
Incoming voice .....	1,358	17.7	1,510	17.6	(152)	(10.1)
Value-added services (VAS) .....	2,045	26.6	2,022	23.5	23	1.1
Handset sales .....	256	3.3	482	5.6	(226)	(46.9)
<b>Total Revenues from Mobile Telecommunications .....</b>	<b><u>7,692</u></b>	<b><u>100.0</u></b>	<b><u>8,597</u></b>	<b><u>100.0</u></b>	<b><u>(905)</u></b>	<b><u>(10.5)</u></b>

### Operating profit

Operating profit was 5,162 million euros in 2010, a decrease of 231 million euros (-4.3%) compared to 2009. The operating profit margin was 25.7% in 2010 (24.9% in 2009).

The operating profit performance was impacted by the change in the following line items:

- *acquisition of goods and services* totaled 7,131 million euros in 2010, a reduction of 1,209 million euros (-14.5%) compared to 2009. This decrease was mainly due to a reduction in the amounts to be paid to other operators owing to the effect of the development of the "Community TIM" rate plans and the reduction in the termination rates of voice calls on the network of other operators from fixed and mobile networks. Lower purchases of equipment for resale also contributed to the reduction, particularly the cost of handsets on account of the new mobile marketing policy. Commercial expenses for customer acquisition costs were also down due to the Group's strategy of focusing on higher-value customers. Fixed costs, too, were also the focus of the effective reduction and rationalization actions begun in prior years;
- *employee benefits expenses* of 3,473 million euros in 2010, represented an increase of 103 million euros compared to 2009. While ordinary employee benefits expenses decreased by 151 million euros, mostly due to the reduction in the headcount of the average salaried workforce (-3,148 persons compared to December 31, 2009, of whom -565 persons are under the "solidarity contracts" in Telecom Italia S.p.A. and Shared Service Center), higher expenses were incurred for collective dismissal agreements under Law 223/1991 in the amount of 254 million euros, following the agreement signed with the labor unions by Telecom Italia S.p.A on August 4, 2010, by Telecom Italia Sparkle on December 7, 2010 and by Shared Service Center on November 16, 2010; and
- *other operating expenses* of 709 million euros in 2010, represented a decrease of 140 million euros compared to 2009, mainly as a result of the reduction in writedowns and expenses in connection with credit management.

Apart from the factors mentioned above, the operating profit performance can be attributed to the lower *depreciation and amortization charges* of 207 million euros in 2010 (largely due to the reduction in depreciable assets).

### Capital expenditures

Capital expenditures totaled 3,106 million euros in 2010, down by 409 million euros compared to 2009, principally due to the impact of the purchase in 2009 of part of the IPSE frequencies (89 million euros) and the continuation of the plans for the optimization and rationalization of capital expenditures particularly with respect to Network Platforms, Service Platforms, IT and Service Creation. Also contributing to the reduction is the new commercial policy regarding mobile handsets which is more selective and focused on high-value customers.

The percentage of capital expenditures to revenues was 15.5% in 2010 (16.2% in 2009).

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## Employees

Employees were 56,530 as of December 31, 2010, a reduction of 2,837 units compared to December 31, 2009.

### ❖ BRAZIL

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

	Year ended December 31,		Year ended December 31,		Changes	
	2010	2009	2010	2009	(a-b)	%
	(a)	(b)	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues .....	6,199	4,753	14,457	13,161	1,296	9.8
Operating profit .....	685	209	1,597	580	1,017	—
● % of Revenues .....	11.0	4.4	11.0	4.4		
Capital expenditures .....	1,216	964	2,836	2,671	165	6.2
Employees at year-end (units) .....	10,114	9,783	10,114	9,783	331	3.4

## Revenues

Revenues totaled 14,457 million Brazilian reais, increasing 1,296 million Brazilian reais compared to 2009 (+9.8%). Revenues in 2009, reclassified to take into account the change in the scope of consolidation after the acquisition of Intelig Telecomunicações Ltda, totaled 13,750 million Brazilian reais.

Service revenues in 2010 were 13,571 million Brazilian reais, an increase of 1,337 million Brazilian reais compared to 12,234 million Brazilian reais in the prior year (+10.9%); product revenues fell from 927 million Brazilian reais in 2009 to 886 million Brazilian reais in 2010 (-4.5%), due to growth in rate plans offered separately from the sale of handsets ("SIM only" sales).

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

Total mobile lines at December 31, 2010 were 51.0 million, an increase of 24.1% over December 31, 2009, corresponding to a 25.1% market share of mobile lines.

## Operating profit

Operating profit was 1,597 million Brazilian reais in 2010, an increase of 1,017 million Brazilian reais compared to 2009. This significant improvement in operating profit was attributable to, on the one hand, the increase in revenue margins, owing to the expansion of "on net" traffic and the growth of revenues from advanced services and, on the other, by sales policies which reduced the level of handset subsidies and overall efficiency gains in costs generally unrelated to business development.

Furthermore operating profit was positively impacted by lower depreciation and amortization charges of 285 million Brazilian reais (2,594 million Brazilian reais in 2010, compared to 2,879 million Brazilian reais in 2009). In particular, the reduction in amortization was attributable to the change in useful life of software (-364 million Brazilian reais) while the depreciation charge increased for plant and machinery (+117 million Brazilian reais).

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

- *acquisition of goods and services* totaled 8,208 million Brazilian reais (7,777 million Brazilian reais in 2009). The increase of 5.5% compared to the prior year (+431 million Brazilian reais) was the result of higher rent and lease costs of 225 million Brazilian reais (1,084 million Brazilian reais in 2010), higher outside service costs of 98 million Brazilian reais, higher purchases of raw materials, auxiliaries, consumables and

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merchandise for 62 million Brazilian reais and a higher portion of revenues to be paid to other TLC operators of 45 million Brazilian reais. Excluding the change in the scope of consolidation (692 million Brazilian reais), there would have been a reduction in costs of 261 million Brazilian reais;

- *employee benefits expenses*, amounted to 659 million Brazilian reais, increasing 86 million Brazilian reais compared to 2009 (+14.9%). Excluding the change in the scope of consolidation, the increase would have been 18 million Brazilian reais due to the variation in the composition and the per unit cost of the workforce. The average number of employees fell from 8,900 in 2009 to 8,727 in 2010. The percentage of employee benefits expenses to revenues was 4.6%, increasing 0.2 percentage points compared to 2009; and
- *other operating expenses*, amounted to 1,371 million Brazilian reais in 2010, an increase of 6.0% (1,293 million Brazilian reais in 2009). Such expenses consist of the following:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of Brazilian reais, except percentages)			
Writedowns and expenses in connection with credit management .....	311	422	(111)	(26.3)
Accruals to provisions .....	41	70	(29)	(41.4)
TLC operating fees .....	961	735	226	30.7
Indirect duties and taxes .....	26	33	(7)	(21.2)
Sundry expenses .....	32	33	(1)	(3.0)
<b>Total .....</b>	<b><u>1,371</u></b>	<b><u>1,293</u></b>	<b><u>78</u></b>	<b><u>6.0</u></b>

### Capital expenditures

Capital expenditures were 2,836 million Brazilian reais in 2010, an increase of 165 million Brazilian reais compared to 2009, primarily due to higher capital expenditures for the network (2G and 3G technologies) and IT platforms. The 2G (voice) capital expenditure program is directed towards improving the capacity, the coverage and the quality of the network, supporting the increase in traffic due to the expansion of "on net" plans. Capital expenditures for 3G coverage are also continuing in accordance with the regulatory objectives and market developments.

### Employees

Employees were 10,114 at December 31, 2010, an increase of 331 people compared to December 31, 2009 (9,783 units).

### ❖ ARGENTINA

The following table sets out certain selected financial data for the Argentina Business Unit in 2010, beginning with its consolidation with the Telecom Italia Group on October 13, 2010, the date of acquisition of control by the Telecom Italia Group. The amounts presented include the effects of the application of the purchase price method. Specifically, in compliance with the requirements of IFRS 3, all the assets and liabilities of the group acquired were measured for their recognition at fair value for purposes of the calculation of goodwill arising from the acquisition of control of Sofora group. Accordingly, the economic values include, beginning October 13, 2010, the impacts of such measurement and especially the higher amortization charges related thereto.

	Period from October 13, 2010 to December 31, 2010	
	(millions of euros, except percentages and employees)	(millions of Argentine pesos, except percentages and employees)
Revenues .....	798	4,142
Operating profit .....	110	568
● % of Revenues .....	13.7	13.7
Capital expenditures .....	188	975
Employees at year-end (units)(*) .....	<u>15,650</u>	<u>15,650</u>

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



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For a better understanding of the performance of the Argentina Business Unit, the following table sets out certain selected financial data for the full year 2010 compared to 2009. This data is unaudited and provided solely for information purposes (illustrative and comparative) and are not part of the consolidated results of the Telecom Italia Group.

	Year ended December 31,					
	2010	2009	2010	2009	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros, except employees)		(millions of Argentine pesos, except percentages and employees)			
Revenues .....	2,820	2,337	14,627	12,170	2,457	20.2
Capital expenditures .....	493	428	2,558	2,231	327	14.7
Employees at year-end (units)(*) .....	15,650	15,333	15,650	15,333	317	2.1

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

Revenues were 14,627 million Argentine pesos in 2010, an increase of 20.2% compared to the prior year (12,170 million Argentine pesos in 2009). The increase was mainly due to the growth of the customer base in the fixed and broadband businesses as well as mobile businesses, in addition to the higher ARPU. The main source of revenues for the Argentina Business Unit is mobile telephony which accounts for 68% of consolidated revenues, an increase of 24% in 2010 compared to 2009.

### Capital expenditures

Capital expenditures were 2,558 million Argentine pesos in 2010, increasing 14.7% compared to 2009. Such amount includes 551 million Argentine pesos for the capitalization of customer acquisition costs for the subscription of binding 18 – 24 month contracts for mobile customers and 12 month contracts for broadband customers.

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

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

### Employees

Employees were 15,650 at December 31, 2010, an increase of 317 units compared to December 31, 2009 (+2.1%).

### ❖ MEDIA

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	258	230	28	12.2
Operating profit (loss) .....	(92)	(80)	(12)	(15.0)
● % of Revenues .....	(35.7)	(34.8)		
Capital expenditures .....	67	53	14	26.4
Employees at year-end (units) .....	777	757	20	2.6

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In May 2009 Telecom Italia Media S.p.A. sold a 60% stake in Telecom Media News, which controlled the APCom press agency, one of the major providers of primary national news, to the company Sviluppo Programmi Editoriali S.p.A. (E.P.S. group). The principal operating data of the company Telecom Media News up to April 30, 2009 were as follows:

	<u>1.1 – 4.30.2009</u> (million of euros)
Revenues .....	3
Operating profit (loss) .....	<u>(2)</u>

The following table and discussions of the financial data for 2010 and 2009, which have been revised to exclude the results relating to the company Telecom Media News, are as follows:

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	258	227	31	13.7
Operating profit (loss) .....	(92)	(68)	(24)	(35.3)
● % of Revenues .....	(35.7)	(30.0)		
Capital expenditures .....	67	53	14	26.4
Employees at year-end (units) .....	<u>777</u>	<u>757</u>	<u>20</u>	<u>2.6</u>

Revenues were 258 million euros in 2010, increasing 31 million euros (+13.7%) compared to 227 million euros in 2009. In greater detail:

- revenues of Telecom Italia Media S.p.A. in 2010, before intragroup eliminations, amounted to 116 million euros, increasing 2 million euros (+1.7%) compared to 2009. Net advertising revenues rose by 8.5% compared to 2009, with net sales of 99 million euros compared to 92 million euros in the prior year. Sales of Digital Content for Telecom Italia decreased (-2 million euros) due to lower prices in the new contract which began in April and Media Service revenues also fell (-3 million euros) following the termination of services rendered to Dahlia TV (concluded in the first half of the prior year) which had generated revenues of 4 million euros to June 2009;
- MTV Group revenues were 98 million euros in 2010, basically unchanged, before intragroup eliminations, compared to 2009. This result was reached due to higher advertising revenues on the One Channel (+1 million euros) and the new MTV+ channel (+1 million euros), and also the satellite channels (+2 million euros). Conversely, in 2010, MTV Mobile revenues fell by 4 million euros and revenues of the Web channels were down by 1 million euros;
- revenues from Network Operator activities, before intragroup eliminations, amounted to 76 million euros in 2010, compared to 50 million euros in 2009, an increase of 26 million euros (+53.1%). This result is principally due to higher revenues from the rental of bandwidths to third parties.

2010 also featured a broader spectrum of offerings by the Group with new programs and the launch of new digital terrestrial channels (La7D and MTV+) and the Web (La7.TV and the new portals Mtvnews.it and Nickjr.it), demonstrating how free TV still has a big potential if guided by the quality and excellence of the proposed content. The result of the above illustrated initiatives led to an increase in audience share, and an increase in revenues and profit.

### Operating profit

Operating profit was a negative 92 million euros in 2010; an increase in loss of 24 million euros compared to a loss of 68 million euros in 2009. The change can be ascribed to the impairment loss on goodwill of 46 million euros recorded on the basis of the impairment test on the Media Business Unit, only partly offset by:

- the improvement of 2 million euros for Telecom Italia Media S.p.A. due to higher revenues and reduction in costs on other operations;

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- the increase of 2 million euros for MTV Group due to the aforementioned stable revenues, the reduction in Playmaker activities, the lower costs of Mobile activities and the constant focus on operating costs;
- the improvement of 17 million euros of Network Operator due to higher revenues, as described above, which were only partly offset by higher operating costs that included 9 million euros for the writedown of receivables from Dahlia TV, after it was wound up on January 10, 2011.

### Capital expenditures

Capital expenditures amounted to 67 million euros in 2010 (53 million euros in 2009). Such expenditures were attributed to Telecom Italia Media S.p.A. (32 million euros), the MTV group (7 million euros) and Telecom Italia Media Broadcasting (28 million euros), mostly for the acquisition of television rights extending beyond one year (31 million euros) and the acquisition of infrastructures for the expansion and maintenance of the digital network (28 million euros).

### Employees

There were 777 employees at December 31, 2010, an increase of 20 units compared to December 31, 2009, and included 44 units with temporary work contracts (38 units at December 31, 2009). The increase was mainly due to Telecom Italia Media S.p.A., as a result of building up its Digital Content structure and the start of the new La7D channel and programming changes.

### ❖ OLIVETTI

The following table sets forth, for the period indicated, certain financial and other data for the Olivetti Business Unit.

	Year ended December 31,			
	2010	2009	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues .....	391	350	41	11.7
Operating profit (loss) .....	(24)	(19)	(5)	(26.3)
• % of Revenues .....	(6.1)	(5.4)		
Capital expenditures .....	5	4	1	25.0
Employees at year-end (units) .....	<u>1,090</u>	<u>1,098</u>	<u>(8)</u>	<u>(0.7)</u>

### Revenues

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

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

In Italy, higher sales were recorded in the indirect channel (dealers and distributors) particularly for professional office products, fiscal cash registers and new product lines (Netbooks and Notebooks) which more than offset for the decline in sales of products using ink-jet technology (faxes, multifunctional printers and accessories). The direct channel (sales to large customers) in 2010 grew compared to 2009 due to an order for about 8,000 specialized terminals for the largest gaming operator in Italy. Installations, begun in 2009, continued in 2010 on an important project in collaboration with Telecom Italia S.p.A. for the supply of specialized terminals for payments/services to authorized tobacconists in Italy.

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### Operating profit

Operating profit was a negative 24 million euros in 2010, an increase in losses of 5 million euros compared to 2009, owing to employee benefit expenses for 5 million euros, of which:

- expenses for the “mobilità” procedure under Law 223/91 owing the union agreements signed on January 11, March 8, and September 30, 2010 for 4 million euros;
- other expenses for termination benefit incentives in the foreign affiliates for 1 million euros.

### Capital expenditures

Capital expenditures amounted to 5 million euros in 2010, increasing by 1 million euros over 2009.

### Employees

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

### 5.3 LIQUIDITY AND CAPITAL RESOURCES

The Telecom Italia Group's policy is to manage financial risks (market risk, credit risk and liquidity risk) by defining, at a central level, guidelines for directing operations, identifying the most appropriate financial instruments to meet pre-determined objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

Telecom Italia has a centralized Finance Department 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;
- supporting its subsidiaries to gain access to the loan market; and
- 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 constantly monitoring cash flows and ensuring a more efficient use of liquidity in excess of requirements.

Furthermore, the Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks. For additional details on funding and treasury policies and risk policies reference should be made to the "Note—Financial Activities" and "Note—Financial risk management" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Telecom Italia Group's goal is to achieve an "adequate level of financial flexibility" which is expressed by maintaining a treasury margin (composed by cash and cash equivalents, marketable securities and undrawn committed credit lines) to cover refinancing requirements at least for the next 12-18 months.

#### 5.3.1 LIQUIDITY

Telecom Italia Group's primary source of liquidity is cash generated from operations and its principal use 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.

For additional details, reference should be made to the "Note—Financial Activities" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The table below summarizes, for the periods indicated, the Telecom Italia Group's cash flows.

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Cash flows from (used in) operating activities .....	8,512	6,873	5,475
Cash flows from (used in) investing activities .....	(6,301)	(3,319)	(4,569)
Cash flows from (used in) financing activities .....	(713)	(3,904)	(881)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale(*) .....	—	—	61
<b>Aggregate cash flows (A) .....</b>	<b>1,498</b>	<b>(350)</b>	<b>86</b>
<b>Net cash and cash equivalents (**) at beginning of the year (B) .....</b>	<b>5,282</b>	<b>5,484</b>	<b>5,226</b>
<b>Net foreign exchange differences on net cash and cash equivalents (C) ..</b>	<b>(110)</b>	<b>148</b>	<b>172</b>
<b>Net cash and cash equivalents (**) at end of the year (D=A+B+C) .....</b>	<b>6,670</b>	<b>5,282</b>	<b>5,484</b>

(\*) For further details please see the Note "Discontinued operations/non-current assets held for sale" of the Consolidated Financial Statements included elsewhere in this Annual Report.

(\*\*) For further details please see the Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009 of the Consolidated Financial Statements included elsewhere in this Annual Report.

**Cash flows from operating activities.** Cash flows from operating activities were 8,512 million euros in 2011, 6,873 million euros in 2010 and 5,475 million euros in 2009.

### 2011 compared to 2010

The increase of 1,639 million euros in 2011 compared to 2010 was primarily attributable to:

- a positive effect of impairment losses (reversals) on non-current assets (including investments) of 7,481 million euros (a net source of 7,365 million euros in 2011 compared to a net use of 116 million euros in 2010), due to the results of the impairment test for goodwill relating to the Domestic Business;
- a positive effect of net change in deferred tax assets and liabilities equal to 938 million euros (a net source of 189 million euros in 2011 compared to a net use of 749 million euros in 2010);
- a positive effect due to a decrease in net gains realized on disposals of non-current assets (including investments) of 23 million euros (a net use of 18 million euros in 2011 compared to a net use of 41 million euros in 2010);
- a positive effect of share of losses of associates and joint ventures accounted for using the equity method of 138 million euros (from a net use of 99 million euros in 2010 to a net source of 39 million euros in 2011);
- a positive effect of change in trade payables of 114 million euros (a net use of 164 million euros in 2011 compared to a net use of 278 million euros in 2010);
- a positive effect of net change in current income tax receivables/payables of 260 million euros (a net source of 90 million euros in 2011 compared to a net use of 170 million euros in 2010); and
- a positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 1,047 million euros (a net source of 67 million euros in 2011 compared to a net use of 980 million euros in 2010).

Such increases in cash flows were partially offset by:

- a decrease in profit (loss) from continuing operations of 7,849 million euros (from a profit of 3,582 million euros in 2010 compared to a loss of 4,267 million euros in 2010);
- a decrease in depreciation and amortization of 48 million euros (5,542 million euros in 2010 compared to 5,494 million euros in 2011);
- a negative effect of change in employee benefits of 323 million euros (a net use of 250 million euros in 2011 compared to a net source of 73 million euros in 2010); and
- a negative effect of change in inventories of 132 million euros (a net use of 36 million euros in 2011 compared to a net source of 96 million euros in 2010).

### 2010 compared to 2009

The increase of 1,398 million euros in 2010 compared to 2009 was primarily attributable to:

- an increase in profit from continuing operations of 1,364 million euros (3,582 million euros in 2010 compared to 2,218 million euros in 2009);
- a positive effect of net change in current income tax receivables/payables of 1,000 million euros (a net use of 170 million euros in 2010 compared to a net use of 1,170 million euros in 2009);
- a positive effect of change in trade payables of 717 million euros (a net use of 278 million euros in 2010 compared to a net use of 995 million euros in 2009);
- a positive effect of change in employee benefits of 246 million euros (a net source of 73 million euros in 2010 compared to a net use of 173 million euros in 2009); and
- a positive effect of change in inventories of 126 million euros (from a net use of 30 million euros in 2009 to a net source of 96 million euros in 2010).

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Such increases in cash flows were partially offset by:

- a negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 751 million euros (from a net use of 229 million euros in 2009 to a net use of 980 million euros in 2010);
- a negative effect of net change in deferred tax assets and liabilities equal to 701 million euros (from a net use of 48 million euros in 2009 to a net use of 749 million euros in 2010);
- a negative effect of impairment losses (reversals) on non-current assets (including investments) of 143 million euros (a net use of 116 million euros in 2010 compared to a net source of 27 million euros in 2009);
- a negative effect due to an increase in net gains realized on disposals of non-current assets (including investments) of 96 million euros (a net use of 41 million euros in 2010 compared to a net source of 55 million euros in 2009); and
- a negative effect of change in trade receivables and net amounts due from customers on construction contracts of 323 million euros (a net source of 13 million euros in 2010 compared to a net source of 336 million euros in 2009).

**Cash flows used in investing activities.** Cash flows used in investing activities were 6,301 million euros in 2011, 3,319 million euros in 2010 and, 4,569 million euros in 2009.

### 2011 compared to 2010

The increase in cash used in investing activities in 2011 compared to 2010 of 2,982 million euros was mainly due to:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 1,058 million euros (5,538 million euros in 2011 compared to 4,480 million euros in 2010);
- an increase in acquisition of control of subsidiaries or other businesses of 664 million euros (a net use of 668 million euros in 2011 compared to a net use of 4 million euros in 2010);
- a negative effect of change in financial receivables and other financial assets of 1,082 million euros (a net use of 580 million euros in 2011 compared to a net source of 502 million euros in 2010);
- net cash and cash equivalents arising from the acquisition of the control of the Sofora group—Argentina that in 2011 was nil (in 2010 amounted to 392 million euros); and
- a decrease of 129 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net source of 51 million euros in 2011 compared to a net source of 180 million euros in 2010).

Such effects were partially offset by:

- an increase in proceeds from sale/repayments of intangible, tangible and other non-current assets of 379 million euros (a net source of 56 million euros in 2010 compared to a net source of 435 million euros in 2011).

### 2010 compared to 2009

The decrease in cash used in investing activities in 2010 compared to 2009 of 1,250 million euros was mainly due to:

- an increase in net cash and cash equivalents arising from the acquisition of the control of the Sofora group—Argentina of 392 million euros;
- a positive effect of change in financial receivables and other financial assets of 1,194 million euros (a net source of 502 million euros in 2010 compared to a net use of 692 million euros in 2009);
- an increase of 193 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net source of 180 million euros in 2010 compared to a net use of 13 million euros in 2009); and
- a positive effect of 41 million euros in acquisitions/disposals of other investments (a net source of 35 million euros in 2010 compared to a net use of 6 million euros in 2009).



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Such effects were partially offset by:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 556 million euros (4,480 million euros in 2010 compared to 3,924 million euros in 2009); and
- a decrease in proceeds from sale/repayments of intangible, tangible and other non-current assets of 10 million euros (a net source of 56 million euros in 2010 compared to a net source of 66 million euros in 2009).

**Cash flows used in financing activities.** Cash flows used in financing activities were 713 million euros in 2011, 3,904 million euros in 2010 and 881 million euros in 2009.

*Cash flows used in financing activities* in 2011 of 713 million euros reflected mainly the following:

- an increase in financial liabilities and other of 584 million euros, as a result of the issuance of new debt (4,523 million euros) and the change in current financial liabilities and other (1,351 million euros) partially offset by repayments of non-current financial liabilities (5,290 million euros); and
- the payment of dividends of 1,326 million euros.

*Cash flows used in financing activities* in 2010 of 3,904 million euros reflected mainly the following:

- a decrease in financial liabilities and other of 2,878 million euros, as a result of repayments of non-current financial liabilities (5,842 million euros) partially offset by the issuance of new debt (2,007 million euros) and the change in current financial liabilities and other (957 million euros); and
- the payment of dividends of 1,093 million euros.

### 5.3.2 CAPITAL RESOURCES

#### **Net Financial Debt**

Net Financial Debt is a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see "5.2.3—Non-GAAP Financial Measures".

On a consolidated basis, at December 31, 2011 Net Financial Debt was 30,819 million euros compared to 32,087 million euros at December 31, 2010 (a decrease of 1,268 million euros).

The net financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities.

In our updated 2012-2014 Strategic Plan we confirmed our strategic priorities: reinforcement of cash flow generation and steady and persistent deleveraging to reduce the Group's Net Financial Debt.

Please see "Introduction—Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the United States Private Securities Litigation Reform Act of 1995", included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, "Item 3. Key Information—3.1 Risk Factors".

There can be no assurance that we will be able to achieve the financial targets we have established.

Net Financial Debt is detailed in the following table:

	As of December 31,		
	2011	2010	2009
	(millions of euros)		
Non-current financial liabilities .....	35,860	34,348	36,797
Current financial liabilities .....	6,091	6,882	6,941
Finance liabilities relating to Discontinued operations/Non current assets held for sale .....	—	—	659
<b>GROSS FINANCIAL DEBT (A) .....</b>	<b>41,951</b>	<b>41,230</b>	<b>44,397</b>
<b>NON-CURRENT FINANCIAL ASSETS (B) .....</b>	<b>(2,949)</b>	<b>(1,863)</b>	<b>(1,119)</b>
Current financial asset:			
—Securities other than investments .....	(1,007)	(1,316)	(1,843)
—Financial receivables and other current financial assets .....	(462)	(438)	(1,103)
—Cash and cash equivalents .....	(6,714)	(5,526)	(5,504)
—Financial assets relating to Discontinued operations/Non current assets held for sale .....	—	—	(81)
<b>TOTAL CURRENT FINANCIAL ASSETS (C) .....</b>	<b>(8,183)</b>	<b>(7,280)</b>	<b>(8,531)</b>
<b>FINANCIAL ASSETS (D=B+C) .....</b>	<b>(11,132)</b>	<b>(9,143)</b>	<b>(9,650)</b>
<b>NET FINANCIAL DEBT (A+D) .....</b>	<b>30,819</b>	<b>32,087</b>	<b>34,747</b>

The non-current portion of gross financial debt was 35,860 million euros at December 31, 2011 (34,348 million euros at December 31, 2010 and 36,797 million euros at December 31, 2009) and corresponds to 85.5% of total gross financial debt.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. It should be stressed that such instruments are not used for speculative purposes.

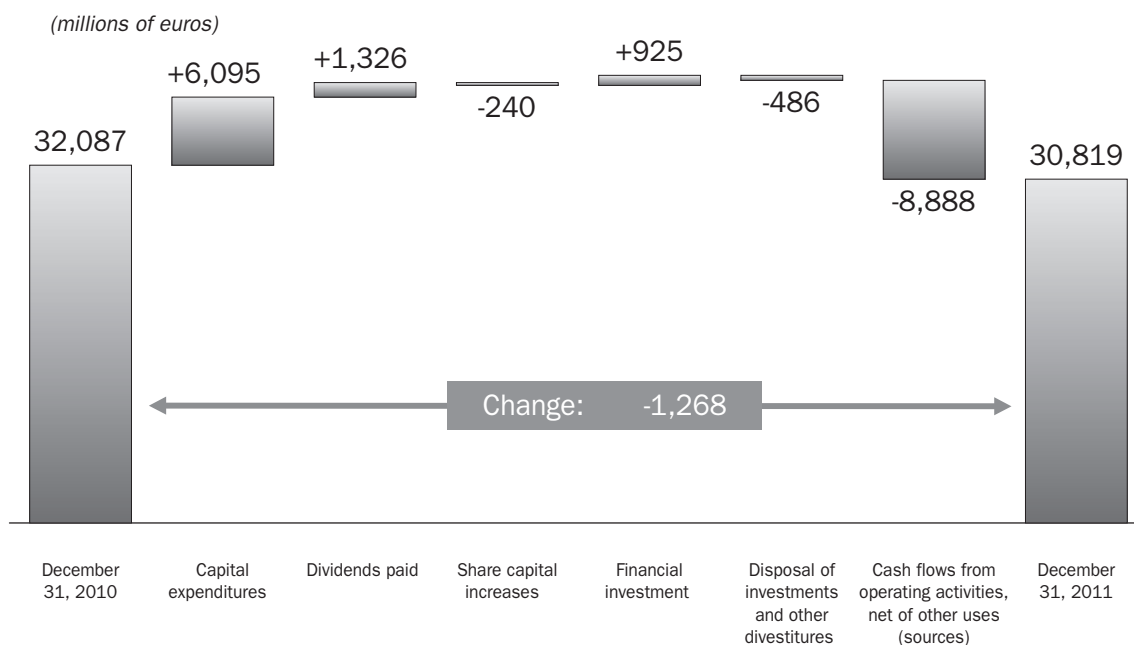
Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65%-75% for the fixed-rate component and 25%-35% for the floating-rate component.

In managing market risks, the Group has adopted a "Guideline policy for debt management using derivative instruments" and mainly uses Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS) derivative financial instruments.

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

**CHANGE IN NET FINANCIAL DEBT DURING 2011**

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2011:



In particular:

- **Capital expenditures on an accrual basis** were 6,095 million euros in 2011, an increase of 1,512 million euros (+33%) compared to 2010. The breakdown is as follows:

	Year ended December 31,				
	2011		2010		Changes
	(a)	%	(b)	%	(a-b)
(millions of euros, except percentages)					
Domestic .....	4,200	68.9	3,106	67.8	1,094
Brazil .....	1,290	21.2	1,216	26.5	74
Argentina .....	556	9.1	188	4.1	368
Media, Olivetti and other activities .....	66	1.1	76	1.7	(10)
Adjustments .....	(17)	(0.3)	(3)	(0.1)	(14)
<b>Total consolidated capital expenditures .....</b>	<b>6,095</b>	<b>100.0</b>	<b>4,583</b>	<b>100.0</b>	<b>1,512</b>
<b>% on revenues .....</b>	<b>20.3</b>		<b>16.6</b>		

The increase in capital expenditures is mainly due to: investments made by the Domestic Business Unit for the acquisition of user rights for the 800 MHz, 1800 MHz and 2600 MHz frequencies to be used for broadband mobile communication services, for a total amount of 1,223 million euros, the consolidation of the Argentina Business Unit for the full year (+368 million euros, including the negative exchange rate effect of 18 million euros) and higher capital expenditures by the Brazil Business Unit (+74 million euros, including a positive exchange rate effect of 3 million euros).

- **Share capital increases** were 240 million euros in 2011, an increase of 173 million euros compared to 2010 and were solely attributable to the share capital increase of Tim Participações S.A.

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- **Financial investments** were 925 million euros in 2011, an increase of 869 million euros compared to 2010, and were attributable to:
  - *Acquisition of stakes in the Sofora—Telecom Argentina group*  
 During 2011, the Telecom Italia Group increased the stakes held in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones) for a total investment of 211 million euros. Following those acquisitions, Telecom Italia Group's economic interest in Telecom Argentina moved from 16.2% as of December 31, 2010 to 22.7% as of December 31, 2011.
  - *Acquisition of control of the 4GH group*  
 On July 27, 2011, Telecom Italia, after having received the National Antitrust Authority's (AGCM) approval, finalized the acquisition of a 71% stake in the company 4G Holding S.p.A., with a total impact on net financial debt of 27.4 million euros, for an outlay of about 8.6 million euros (including transaction costs) and the consolidation of the financial debt of the acquired companies.
  - *Acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ*  
 On October 31, 2011, two companies belonging to the AES Atimus group, telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro, were acquired from Companhia Brasileira de Energia, through the subsidiary Tim Celular S.A. The total impact on net financial debt was 686 million euros, attributable to the payment of 656 million euros (including transaction costs) and the consolidation of the financial debt of the acquired group.
- **Disposal of investments and other divestitures** amounted to 486 million euros in 2011 and principally relates to:
  - 411 million euros for the portion already received, net of related transaction costs, on the sale of EtecSA (Cuba). The transaction specifically provided that the Telecom Italia Group would receive a total of 706 million U.S. dollars, of which 500 million U.S. dollars was paid by the buyer on January 31, 2011; the remaining amount is to be paid by EtecSA in 36 monthly installments. The receivable is secured by specific guarantees;
  - 53 million euros received, net of related transaction costs and the net financial debt of the subsidiary, on the sale of the entire stake held in Loquendo.

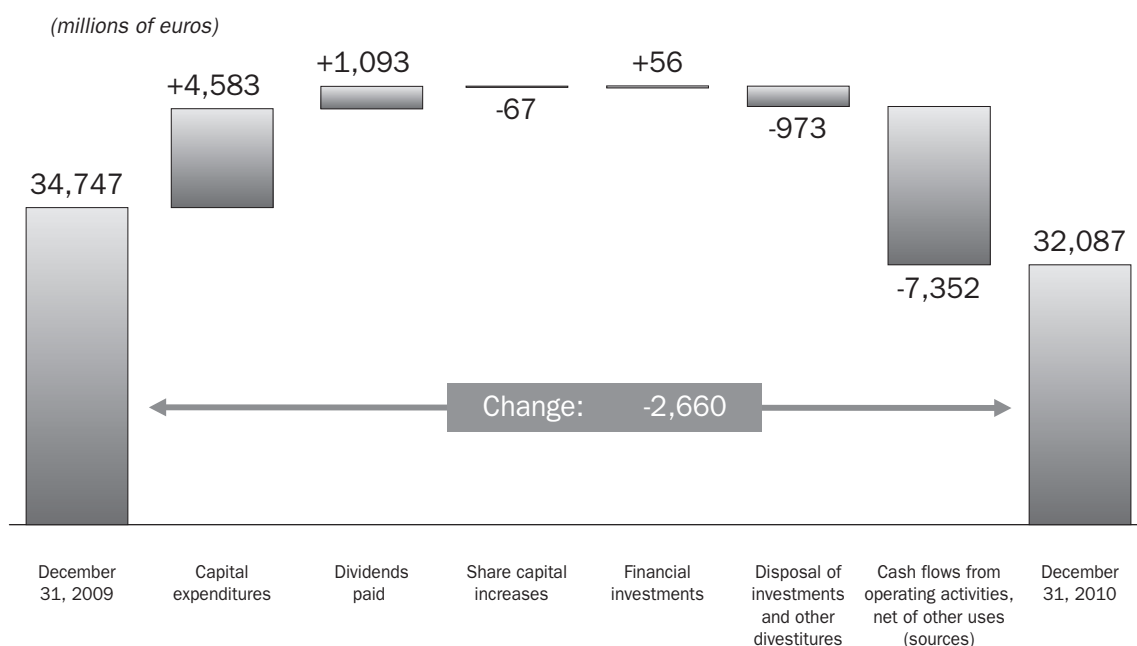
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The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**  
 The sales of receivables to factoring companies during 2011 had a positive effect on net financial debt at December 31, 2011 of 1,334 million euros (1,209 million euros at December 31, 2010).

**CHANGE IN NET FINANCIAL DEBT DURING 2010**

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



In particular:

- **Capital expenditures on an accrual basis were 4,583 million euros in 2010**, an increase of 40 million euros compared to 2009. The breakdown is as follows:

	Year ended December 31,				
	2010		2009		Changes
	(a)	%	(b)	%	(a-b)
	(millions of euros, except percentages)				
Domestic .....	3,106	67.8	3,515	77.4	(409)
Brazil .....	1,216	26.5	964	21.2	252
Media, Olivetti and other activities .....	76	1.7	64	1.4	12
Adjustments .....	(3)	(0.1)	—	—	(3)
<b>Total consolidated capital expenditures (excluding Argentina) .....</b>	<b>4,395</b>	<b>95.9</b>	<b>4,543</b>	<b>100.0</b>	<b>(148)</b>
% on revenues .....	16.4		16.9		
Argentina .....	188	4.1	—	—	188
<b>Total consolidated capital expenditures .....</b>	<b>4,583</b>	<b>100.0</b>	<b>4,543</b>	<b>100.0</b>	<b>40</b>
% on revenues .....	16.6		16.9		

Specifically, the significant decrease in capital expenditures of the Domestic Business Unit (-409 million euros; -11.6%) was the result of programs to cut costs and capital expenditures begun in 2009. However, such reductions were offset by the inclusion of the Argentina Business Unit in the scope of consolidation (+188 million euros) since October 13, 2010 and the increase in capital expenditures by the Brazil Business Unit which mainly reflected the changes in the Brazilian real/euro exchange rate (+180 million euros) as well as higher investments for the expansion of the network and the IT platform.

- **Share capital increases**

Share capital increases were 67 million euros, of which 44 million euros related to the share capital increase of Telecom Italia Media and 23 million euros to the share capital increase realized by the Parent, Telecom Italia S.p.A., as part of the broad-based share ownership Plan for employees.

- **Disposal investments and other divestitures**

Sale of investments and other divestitures amounted to 973 million euros in 2010 and mainly refers to:

- the sale of HanseNet for 811 million euros, including the negative cash flow of about 50 million euros, generated from January 1, 2010 to the date of sale (February 16, 2010);
- the sale of Elettra for 35 million euros, including the collection for the sale of one of the ships owned by the company and the subsequent sale of the investment itself;
- the sale of BBNet for 47 million euros, including the net financial debt of the company sold;
- the reimbursement of 71 million euros received after reaching a settlement agreement between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

\*\*\*

The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**

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

- **VAT taxes, interests and fines related to the Telecom Italia Sparkle case**

With reference to the Telecom Italia Sparkle case, it should be noted that on July 19, 2010, after an in-depth internal investigation and in light of the opinions expressed by various professional advisors, the Company decided to pay the reduced sanctions (25% instead of 100% of the amount fined) and the full amount of VAT considered non-deductible and the related interest, for a total amount of 418 million euros. Following the above payment, the bank surety for approximately 123 million euros, which had been issued in favor of the Tax Authorities was terminated.

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

### ***Gross Financial Debt***

On a consolidated basis, at December 31, 2011, our gross financial debt amounted to 41,951 million euros (41,230 million euros at December 31, 2010) and included non-current financial liabilities (long-term debt) of 35,860 million euros (34,348 million euros at December 31, 2010) and current financial liabilities (short-term debt) of 6,091 million euros (6,882 million euros at December 31, 2010).

As of December 31, 2011, approximately 66.5% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reals, Argentine Peso and Japanese Yen.

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The following table sets out the currency composition of our gross financial debt:

	As of December 31, 2011		As of December 31, 2010	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD .....	12,386	9,572	14,196	10,624
GBP .....	2,532	3,032	2,531	2,940
BRL .....	2,624	1,081	2,682	1,205
JPY .....	20,809	208	20,834	192
ARS .....	740	133	973	183
PYG .....	140,043	24	186,914	31
EURO .....		27,901		26,055
<b>Total gross financial debt</b> .....		<b>41,951</b>		<b>41,230</b>

For information regarding the split of our debt between fixed rate and floating rate please see Note "Financial risk management" of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

- the Telecom Italia Euro Medium Term Note ("**EMTN**") Programme. The maximum amount permitted to be issued under the Programme, including multiple tranches and multiple currencies, is 20 billion euros;
- the **Form F-3 Registration Statement**, filed with the Securities and Exchange Commission on December 29, 2008, and expired on December 29, 2011, which allowed for the issuance, by Telecom Italia S.p.A.'s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by Telecom Italia S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;
- the **Olivetti Euro Medium Term Note Programme**, as updated and amended on June 8, 2001 and May 14, 2002, which allowed for the issuance of a total amount of 15 billion euros in debt (or the equivalent in other currencies), at various terms, rates and maturities; and
- 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.

Until its expiration, Telecom Italia had issued new long-term debt only from the first program of the above list. The following table highlights the utilization of the above mentioned program at the end of 2011.

		As of December 31, 2011
		EMTN Programme
		(millions of euros)
Total amount of the program (max outstanding notes) .....	(A)	20,000.00
Notes and bonds issued .....		19,302.80
Notes and bonds repaid .....		4,855.22
Net utilization of the program .....	(B)	14,447.58
Remaining available amount of the program .....	(A-B)	5,552.42

### Notes and bonds

At December 31, 2011 we had notes and bonds outstanding of 28,373 million euros (29,578 million euros at December 31, 2010). Their nominal repayment amount was 26,975 million euros, a decrease of 1,354 million euros compared to December 31, 2010 (28,329 million euros).



Changes in bonds during 2011 were as follows:

	<u>Currency</u>	<u>Amount (millions)</u>	
<b>NEW ISSUES</b>			<b>Issue date</b>
Telecom Italia S.p.A. 1,000 million euros 7% maturing 1/20/2017(1) ...	Euro	1,000	10/20/2011
Telecom Italia S.p.A. 750 million euros 4.75% maturing 5/25/2018 .....	Euro	750	5/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 1/25/2016 .....	Euro	1,000	1/25/2011
<b>REPAYMENTS</b>			<b>Repayment date</b>
Telecom Italia Capital S.A. Floating Rate Notes 850 million dollars, 3M USD LIBOR + 0.61% .....	USD	850	7/18/2011
Telecom Italia Capital S.A. 750 million dollars 6.2% .....	USD	750	7/18/2011
Telecom Italia Finance S.A. 1,791 million euros 7.50%(2) .....	Euro	1,791	4/20/2011
Telecom Italia Capital S.A. Floating Rate Notes 400 million dollars, 3M USD LIBOR + 0.48% .....	USD	400	2/1/2011
Telecom Italia S.p.A. 750 million euros 4.5% .....	Euro	750	1/28/2011
<b>BUYBACKS</b>			<b>Buyback period</b>
Telecom Italia Finance S.A. 1,791 million euros 7.50% maturing April 2011(3) .....	Euro	93	January – March 2011
Telecom Italia Finance S.A. 801 million euros 7.25% maturing April 2012 .....	Euro	199	January – September 2011
Telecom Italia Finance S.A. 759 million euros 6.875% maturing January 2013 .....	Euro	91	November – December 2011
Telecom Italia S.p.A. 1,222.5 million euros 6.25% maturing February 2012 .....	Euro	27.5	December 2011
Telecom Italia S.p.A. 645 million euros 6.75% maturing March 2013 ....	Euro	5	December 2011

## NOTES

(1) On October 20, 2011 bonds were issued for 750 million euros; subsequently, on November 3, 2011 the issue was reopened and increased for another 250 million euros.

(2) Net of buybacks by the company for 209 million euros during the years 2009-2011.

(3) Bonds had already been bought back for 116 million euros in the years 2009 and 2010. Therefore the total amount bought back is 209 million euros

**Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group:** the nominal amount at December 31, 2011 is equal to 266 million euros and decreased by 39 million euros compared to December 31, 2010 (305 million euros).

**Bond buybacks:** as occurred in past years, in 2011, the Telecom Italia Group bought back bonds in order to:

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

For further details about the outstanding notes and bonds please see also "Note—Financial liabilities (non-current and current)" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### ***Revolving Credit Facility and Term Loan***

The following table shows the composition and the drawdown of the syndicated committed credit lines available at December 31, 2011. These are represented by the 8 billion euros syndicated revolving credit facility which expires in August 2014, the 1.25 billion euros syndicated revolving credit facility which expires in February 2013 and the 200 million euros revolving credit line signed on December 20, 2010 and which expires on June 19, 2012 (renewable at the discretion of Telecom Italia, up to December 18, 2013):

	December 31, 2011		December 31, 2010	
	Committed	Drawdown	Committed	Drawdown
	(billions of euros)			
Revolving Credit Facility—maturity 2013 .....	1.25	0.25	1.25	—
Revolving Credit Facility—maturity 2014 .....	8.0	2.0	8.0	1.5
Revolving Credit Facility—maturity 2012 (extensible up to December 2013) .....	0.2	0.2	0.2	0.12
<b>Total .....</b>	<b><u>9.45</u></b>	<b><u>2.45</u></b>	<b><u>9.45</u></b>	<b><u>1.62</u></b>

On August 3, 2011, a bilateral stand-by credit line was granted for 100 million euros for a period of 5 years (expiring August 3, 2016) from Banca Regionale Europea and has been completely drawn down.

### ***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 7.26 years.

The Group's debt 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 about 5.6%.

For further details about the maturities of financial liabilities in terms of the expected nominal repayment amount, as contractually agreed, please see "Item 5. Operating And Financial Review And Prospects—5.3 Liquidity And Capital Resources—Contractual Obligations and Commitments".

### ***Current financial assets and liquidity margin***

Telecom Italia Group's available liquidity margin, calculated as the sum of Cash and cash equivalents and Securities other than investments, was 7,721 million euros at December 31, 2011 (6,842 million euros at December 31, 2010) and, together with its unused committed credit lines for the total amount of 7 billion euros, allows the Group to meet its repayment obligations over the next 24 months.

In particular:

- **Cash and cash equivalents** were 6,714 million euros at December 31, 2011 (5,526 million euros at December 31, 2010). The different methods of investing available cash at December 31, 2011, which include Euro Commercial Paper for 220 million euros, can be analyzed as follows:
  - **Maturities:** investments have a maximum maturity of three months;
  - **Counterpart risk:** investments are made with leading banking, financial and industrial institutions with high-credit-quality and a rating of at least A-. Investments by the companies in South America have been made with leading local counterparts;
  - **Country risk:** investments are mainly made in the major European financial markets.
- **Securities other than investments** amount to 1,007 million euros at December 31, 2011 (1,316 million euros at December 31, 2010). Such forms of investment represent alternatives to the investment of liquidity with the aim of increasing the return. These mainly consist of 864 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (such securities, which represent investments in "sovereign debt securities", have been purchased in accordance with the "Guideline policy for liquidity investments using financial instruments" adopted by the Telecom Italia Group in July 2009) and 142 million euros of bonds

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issued by counterparts with different maturities, but all with an active market, that is, readily convertible into cash. For further details please see “*Note—Financial Risk Management*” of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

### ***Treasury policies***

The Group uses a variety of instruments to finance its operations and raise liquidity, in particular bond issues, alongside committed and uncommitted bank lines.

### ***Off-Balance Sheet Arrangements***

As of December 31, 2011, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

Guarantees for 19 million euros, net of back-to-back guarantees received, by Telecom Italia on behalf of associates (6 million euros) and other third parties for medium/long-term financial transactions.

Guarantees were provided by third parties to Group companies, amounting to 4,310 million euros, to guarantee financing received (2,262 million euros) and performance under outstanding contracts (2,048 million euros).

Among the guarantees provided by third parties for Telecom Italia S.p.A.’s obligations are two guarantees in favor of the Ministry of Economic Development for the auction to assign the user rights for the 800, 1800 and 2600MHz frequencies. The guarantees amount, respectively, to 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics) and 456 million euros (for the request to pay back the total amount owed over a period of 5 years).

For further details please see “*Note—Contingent liabilities, other information, commitments and guarantees*” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### ***Contractual Obligations and Commitments***

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future based on nominal amounts.

As of December 31, 2011, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

	Amounts due as of December 31,						Total
	2012	2013	2014	2015	2016	After 2016	
	(millions of euros)						
Bonds .....	3,131	3,449	2,912	1,801	2,250	13,432	26,975
Amounts due to banks, other financial payables and liabilities .....	789	1,606	3,008	1,029	548	1,696	8,676
Finance lease liabilities .....	230	115	176	151	135	727	1,534
<b>Total .....</b>	<b>4,150</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>37,185</b>
Current financial liabilities .....	870	—	—	—	—	—	870
<b>Total .....</b>	<b>5,020</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>38,055</b>

For further details please see also “*Note—Derivatives*” and “*Note—Other information, Operating leases*” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### 5.3.3 CAPITAL EXPENDITURES

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units at December 31, 2011.

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Purchase of tangible assets:			
Domestic .....	1,822	1,848	1,950
Brazil .....	769	758	543
Argentina .....	404	156	—
Media, Olivetti .....	34	37	29
Other Operations and eliminations .....	—	3	4
<b>Total purchase of tangible assets(1) .....</b>	<b>3,029</b>	<b>2,802</b>	<b>2,526</b>
<b>Purchase of intangible assets(2) .....</b>	<b>3,066</b>	<b>1,781</b>	<b>2,017</b>
<b>Total capital expenditures(3) .....</b>	<b>6,095</b>	<b>4,583</b>	<b>4,543</b>

(1) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers' equipment, radio and transmission equipment.

(2) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(3) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2011, 2010 and 2009, cash flows from operating activities exceeded capital expenditures on an accrual basis. For further details please see "—5.3.2 Capital Resources", "—5.2.7 Results Of Operations Of Business Units For The Year Ended December 31, 2011 Compared With The Year Ended December 31, 2010", "5.2.9 Results Of Operations Of Business Units For The Year Ended December 31, 2010 Compared With The Year Ended December 31, 2009".

The capital expenditures planned for the 2012-2014 period at Telecom Italia Group level, will be higher than 15 billion euros (excluding the acquisition of spectrum in LATAM).

In particular:

- **Domestic Business Unit:** capital expenditures spending will be almost stable in 2012 compared to 2011 through a process of balanced allocation between investments in maintenance and innovation;
- **Brazil Business Unit (Tim Brasil):** capital expenditures spending flat at 3 billion Brazilian reais per year (approximately 9 billion Brazilian reais in the 2012-2014 period), excluding spectrum acquisition expenditures;
- **Argentina Business Unit:** approximately 4 billion Argentine pesos in 2012 (18% capital expenditures on revenues), excluding spectrum acquisition expenditures.

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".

## 5.4 RESEARCH, DEVELOPMENT AND INNOVATION

Within Telecom Italia, research and development activities are carried out by the Information Technology, Telecom Italia Lab ("TILab") and Innovation & Industry Relations departments, which oversee the development of new technologies and the engineering aspects of Telecom Italia's service offers through strategic partnerships with the main producers of telecommunications equipment and systems and with research centres of excellence at the most highly qualified national and international academic institutions. Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company's assets in patents rights. 14 new applications for patents were filed during 2011.

The themes on which projects are developed are identified on the basis of the three-year technological plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

The plan is published annually, following a wide-ranging process involving all the areas of the company involved, and identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

### Projects and initiatives

The themes identified can be arranged in 3 macro-strands:

- Network and service platform innovation
- Services to reduce environmental impact
- Services for the Community

### Network and service platform innovation

- Careful electromagnetic compatibility analyses were carried out on the new generation wireless LTE (Long Term Evolution) networks currently being designed. The analyses focused in particular on the interference problems associated with the proximity of the spectrum in the 800 MHz band between LTE channels and digital TV channels (DVB-T) and the problems connected with the proximity between aerials for receiving the TV signal and the existing mobile telephony system transmitters (GSM, UMTS) for the purpose of complying with the legal emission limits for electromagnetic fields.
- In the context of activities aimed at developing new mobile access technologies, testing on "active aerials" is taking place for the purpose of improving the spectral efficiency and control and optimisation of the aerial radiation pattern. This activity is required in order to improve the energy efficiency of Radio Base Stations (RBS) by connecting these aerials using optical fibres, thus eliminating the losses due to coaxial cables.
- Research activities continued on mobile radio access as part of the European ARTIST4G project, working with a number of leading operators, manufacturing companies, universities, research centres and European SMEs, with the aim of improving the quality of the service for users connected to the same mobile network cell, without affecting performance for other users. The work is proceeding as planned and the project is expected to be completed by the first half of 2012.
- The new generation of high capacity hybrid radio links were added to the network. These allow both circuit and packet traffic to be carried and will be used, among other things, to connect the remote sites of the new LTE network.
- The first version of the M2M platform for Machine\_to\_Machine communications between networked devices came into operation, allowing Telecom Italia's top customers (big companies and organisations) to manage their stock of terminals and SIM cards, even using automatic ("not-human") applications between networked devices.
- Test campaigns were completed in the laboratory for solutions to be used on high speed trains. The Cubovision project was developed for Trenitalia (Cubo3n) for the purpose of delivering and updating

multimedia content on the Frecciarossa fleet of trains (currently under development for the Frecciargento and Freccia Bianca fleet as well). The services and offer (browsing of the catalogue, purchase and use of content) are delivered via a Wi-Fi multi-device (PC, MAC, iPhone, iPad) web portal hosted entirely on the servers installed on board, thus optimising interaction with the Telecom Italia service centre platforms created with mobile radio access.

- For the mobile Cubovision project, two applications have been developed to offer content, one for the Android platform and one for the IOS (iPhone, iPad) platform. These applications include video content management in adaptive formats that guarantee the best possible user experience in all band conditions (Wi-Fi, HSDPA mobile radio, UMTS mobile radio, etc.) and protection of pay-per-view content.
- As part of the "POF-PLUS" (Plastic Optical Fibre for Pervasive Low-cost Ultra-high capacity Systems) project, a plastic fibre optic system was developed for Ethernet data transmission at 1 Gbit/s over a distance of 50 metres using an international state-of-the-art LED light source that was even exhibited at the OFC 2011 conference. At the same time as its experimental activity, Telecom Italia contributed to drawing up an ETSI (European Telecommunications Standards Institute) specification which is the first international standard in this field.

### Services to reduce environmental impact

- Next Generation Data Center: is a project aimed at developing hardware infrastructure according to virtualisation and cloud computing principles, based on replacing the physical servers in Telecom Italia data centres by making shared use of infrastructure between the various applications. The project, which aims to develop commercial offers for the ICT market (e.g. ospit@ virtuale), allows logistical and energy optimisations to be achieved.
- Next Generation Workplace: is a personal computing evolution that allows centrally managed content and applications to be accessed remotely and in multichannel mode, replacing traditional workstations, based on a desktop, with highly "simplified" PCs that only contain the basic network information needed to communicate with the centralised infrastructure. In addition to contributing in a decisive way to reducing energy consumption, the project is aimed at improving the operational flexibility of employees, establishing the foundation for future development of work models (e.g. teleworking).
- ITS & Infomobility Platform: aims to enable new mobility services for Public Administration and private users by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.). The objective is to improve the efficiency and eco-sustainability of transport for the benefit of the community. The strategy and solutions are developed in close synergy with the industry standardisation activities in which Telecom Italia is closely involved.
- Smart metering: solutions that allow energy consumption to be monitored and optimised, such as Energy@Home.
- Smart Town: the solution provides a package of services for municipalities by using the public lighting network and is offered as part of the Digital Town (Smart Cities) initiatives involving Italy's main cities.
- EARTH (Energy Aware Radio and NeTwork TecHnologies): studies network architectures and the individual radio components of existing and future generation mobile systems in order to improve their energy efficiency by at least 50% compared to current standards, with resulting benefits in terms of savings and a reduction in harmful emissions.
- ECONET (low Energy CONsumption NETworks): is intended to develop new technologies and integrated control mechanisms in order to enable energy saving in fixed network equipment by dynamically adapting network capacity and resources according to the actual traffic loads and requirements of users, guaranteeing quality of service at the same time. The aim is to allow the energy requirement of equipment to be reduced by 50% in the short to medium term (and 80% in the long term).
- Telepresence: development of a prototype for the telepresence service for business customers, the features of which guarantee a high standard of video quality (resolution up to full HD), visibility of the whole person, smoothness in the reproduction of movements and polyphonic audio with echo and background noise suppression. The prototype is distinguished by the use of low cost technologies such as HD consumer webcam, low cost 50" plasma TV, medium range PC and new sound cards.

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- On the Access Gateways (AG) front, work continued on creating the new range of “Telecom Italia Green” products, which was inaugurated in April 2011 with the new Wi-Fi for the supply of broadband services. A further two broadband modems were added and the environmental declaration was finalised for the new version of the “Sirio Punto” telephone, which is expected to be launched by the first half of 2012. Also completed was the environmental declaration for the Cubovision 2 multimedia box (which is also expected to be launched by the first half of 2012), optimising various environmental aspects in close cooperation with the supplier (energy consumption, choice of materials, disassembly procedures, packaging).
- Starting from December 2008, Huawei and Telecom Italia have set up a Network Innovation Center (NIC) for synergistic collaborations on various issues, with particular regard to energy efficiency.

### Services for the Community

- Solutions for reducing the geographical divide: these are intended to facilitate access to broadband in areas with digital divide problems and new urban areas.
- Laboratorio Accreditato di Prova (LAP): operates within TILab and carries out testing activities on ICT services and systems for the company's internal departments and for external companies and organisations. The LAP is accredited as a provider of various services to the Ministry of Economic Development, SIT (Italian calibration service) and Accredia (the new national accreditation body) based on European Regulation EC 765/2008. During 2011, a new technical operating sector was set up, consisting of the laboratory for mobile telephony added value services (VAS) and three new accredited services for performing tests.
- Smart Inclusion: this project allows young long term hospital patients to stay in contact with their school and family home via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures. The technical solution has been created by Telecom Italia by using innovative technologies such as plastic fibre optics and power lines, as well as specific software developments mainly based on open source platforms.
- E-learning and evolved teaching: a series of initiatives have been launched in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the use of innovative devices such as IMBs—Interactive Multimedia Boards.
- Nuvola Italiana Home Doctor: remote healthcare based on monitoring the physiological parameters of the patient directly from home or in appropriately equipped premises. The measurements are carried out by combining technologies developed by Telecom Italia with the standard medical electronic apparatus on sale.

For additional details, reference should be made to the Note “Other information”, of the Notes to the Consolidated Financial Statements included elsewhere herein.



**5.5 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 the forward-looking nature of discussions of strategy, plans or intentions. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but 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 2012-2014 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in our markets, 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 increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning a proprietary TLC network infrastructure);
- the continuing effects of the global economic crisis in the principal markets in which we operate, including recent changes to allowable charges for data and voice roaming;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as procurement, IT, technology, research and development;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international businesses 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 and Argentina), 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 and Argentina);
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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

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## Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.1 DIRECTORS

On April 12, 2011 the Shareholders' Meeting of the Company elected the present Board of Directors of Telecom Italia.

The Shareholders' Meeting established the number of Directors at 15 and their term of office for three years, until the Shareholders' Meeting which will approve the financial statements of the Company for the year ended December 31, 2013; set the overall annual remuneration for the Board of Directors at 2,200,000 euros (to be divided among the members thereof in accordance with the resolutions to be adopted by the Board itself); authorized the Directors to continue with the activities specified in their respective *curricula vitae*, and released them from restrictions on competition, as permitted under Article 2390 of the Italian Civil Code.

On April 13, 2011, the Board of Directors elected Franco Bernabè as Executive Chairman of the Board and Chief Executive Officer of Telecom Italia S.p.A., Aldo Minucci as Deputy Chairman and Marco Patuano as Domestic Managing Director and Chief Operating Officer of the Company.

Following the resignation tendered on June 6, 2011 by Ferdinando Beccalli Falco and the termination on November 16, 2011 of Francesco Profumo (who was appointed Italian Minister of Education on that day), and given that independent directors had been replaced at its meetings on August 4, and December 1, 2011 respectively the Board of Directors approved the proposals by the Nomination and Remuneration Committee (which, among other things, had informally consulted Assogestioni for the purpose), and co-opted Lucia Calvosa and Massimo Egidi as Company Directors until the next Shareholders' Meeting (i.e. the Shareholders Meeting to be held on May 15, 2012).

Consequently, at May 4, 2012 the Board of Directors of Telecom Italia was composed as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointed</u>
Franco Bernabè .....	63	Executive Chairman and Chief Executive Officer/Director .....	2011
Aldo Minucci .....	65	Deputy Chairman/Director .....	2011
Marco Patuano .....	47	Domestic Managing Director and Chief Operating Officer/Director .....	
César Alierta Izuel .....	66	Director .....	2011
Tarak Ben Ammar .....	62	Director .....	2011
Lucia Calvosa(1) .....	50	Director .....	2011
Elio Cosimo Catania(1) .....	65	Director .....	2011
Massimo Egidi(1) .....	69	Director .....	2011
Jean Paul Fitoussi(1) .....	69	Director .....	2011
Gabriele Galateri di Genola .....	65	Director .....	2011
Julio Linares López .....	66	Director .....	2011
Gaetano Micciché .....	61	Director .....	2011
Renato Pagliaro .....	55	Director .....	2011
Mauro Sentinelli(1) .....	65	Director .....	2011
Luigi Zingales(1) .....	49	Director .....	2011

(1) Independent Directors. For details on the criteria applied to determine independence, see "Item 10 Additional Information—10.1 Corporate Governance".

As of May 4, 2012 the Secretary of the Board of Directors was the General Counsel of Telecom Italia, Antonino Cusimano.

In 2011:

- the Board of Directors met thirteen times, with meetings generally scheduled pursuant to a calendar set forth in advance;
- the Executive Committee (as of December 31, 2011 composed of Franco Bernabè—Chairman, Marco Patuano, Elio Cosimo Catania, Julio Linares López, Aldo Minucci, Renato Pagliaro and Mauro Sentinelli) met five times;

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- the Internal Control and Corporate Governance Committee (as of December 31, 2011 composed of Elio Cosimo Catania—Chairman, Lucia Calvosa, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales) held fourteen meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;
- the Nomination and Remuneration Committee (as of December 31, 2011 composed of Elio Cosimo Catania—Chairman, Jean Paul Fitoussi and Gabriele Galateri) met eleven times. On January 19, 2012 the Board of Directors appointed Mr. Massimo Egidi as an additional member of the Nomination and Remuneration Committee.

For a detailed description of Telecom Italia's corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see "Item 10 Additional Information—10.1. Corporate Governance".

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### 6.1.1 BIOGRAPHICAL DATA

The following are the selected biographical data of the Directors in charge as of May 4, 2012.

**Franco Bernabè:** Franco Bernabè was born in Vipiteno/Sterzing (Bozen) in 1948. He was appointed Executive Chairman of Telecom Italia by the Board of Directors on April 13, 2011; previously he had served as the Managing Director and Chief Executive Officer as from December 2007. After earning his degree with honors in Economics and Political Science at the University of Turin in 1973, Mr. Bernabè worked for two years as a post-graduate fellow at the Einaudi Foundation. He began his professional career in 1976 as a Senior Economist at the OECD Department of Economics and Statistics in Paris. In 1978 he joined the Planning Department of FIAT as Chief Economist. In 1983 he joined Eni as an Assistant to the Chairman and became subsequently the Head of Corporate Planning, Financial Control and Corporate Development. From 1992 to 1998 Mr. Bernabè was CEO of Eni. During this two terms, he achieved the turnaround of the company and its successful privatization bringing Eni to be one of the largest oil companies by market capitalization worldwide. In November 1998 he became CEO of Telecom Italia, a position he retained until 1999, when he left following the takeover of Telecom Italia by Olivetti. At the end of 1999 he founded FB Group, an investment company active in the areas of financial advisory, ICT and renewable energy. In 2004, following the merger of the financial advisory activities of FB Group with the Rothschild Group, he was appointed as Vice Chairman of Rothschild Europe.

**Aldo Minucci:** Aldo Minucci was born in Reggio Calabria in 1946. He was appointed Deputy Chairman of the Board of Directors on April 13, 2011. Mr. Minucci has been a Director of Telecom Italia since April 16, 2007. After graduating in Law, in 1972 he was employed by Assicurazioni Generali S.p.A., working in the Tax Consulting Service, for which he became Manager in 1983. In 1993 he was appointed Central Executive Officer with responsibility for the Administration and Tax Coordination Service, and supervision of the Tax Consultancy Service. In 1995 he took on the role of Deputy General Manager for Technical-Commercial Coordination for the Insurance Companies in Italy, and he is Supervisor of the Group's Internal Audit Service. Mr. Minucci is Director of Banca Generali S.p.A., AC.E.GA.S. S.p.A., INA Assitalia S.p.A., FATA Vita S.p.A. and FATA Assicurazioni Danni S.p.A. He is also Chairman of GENERTEL S.p.A. and ANIA (National Association of Insurance Companies).

**Marco Patuano:** Mr. Patuano was born in Alessandria in 1964. Mr. Patuano was appointed Domestic Managing Director and Chief Operating Officer by the Board of Directors on April 13, 2011. Previously he had been Head of Domestic Market Operations since November 2009. He began his career at SIP Central Management in May 1990. From 1990 to 2002, he worked in various departments at Administration, Finance and Control. He was promoted through the ranks at Financial Management between 1998 and 2002. In April 2003, he became CFO at Tim Brasil and Telecom Italia America Latina S.A., a Group subsidiary based in Brazil. Between 2004 and 2006, he served as General Manager at Telecom Italia Latam. In 2006, he moved to Telecom Argentina as Head of Fixed-Line Telephony. He served as General Manager, Operations for Telecom Argentina between May 2007 and July 2008. From August 2008 to November 2009 he was Telecom Italia's Chief Financial Officer. Mr. Patuano is also member of the Board of Olivetti S.p.A., Matrix S.p.A. and Telecom Italia Foundation.

**César Alierta Izuel:** César Alierta Izuel was born in 1945. Mr. Alierta took a degree in law from the University of Zaragoza and earned an MBA at Columbia University (New York). Mr. Alierta has been a Director of Telecom Italia since November 8, 2007. He has been Chairman and Executive Chairman of the Board of Directors of

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Telefónica, S.A. Mr. Alierta began his career in 1970 as general manager of the capital markets division at Banco Urquijo, S.A. in Madrid, where he worked until 1985. Subsequently, he founded and served as chairman of Beta Capital Sociedad de Valores, S.A. which he combined as from 1991 with his post as chairman of the Spanish Financial Analysts' Association (Asociación Española de Analistas Financieros). Between 1996 and 2000, he was director and chairman of Tabacalera, S.A. At that time Tabacalera, S.A. changed its name into Altadis, S.A. (following its merger with the French Group, Seita-Société Nationale D'Exploitation Industrielle des Tabacs et Allumettes) and he became director and chairman of Altadis, S.A. He has also been a member of the board of directors of the Madrid Stock Exchange (Bolsa de Madrid), Plus Ultra Compañía de Seguros y Reaseguros, S.A. and of Iberia S.A. In January 1997 Mr. Alierta was appointed as Director of Telefónica and on July 26, 2000 he was appointed as Executive Chairman. Mr. Alierta has been a Director of China Unicom (Hong Kong) Ltd since October 15, 2008 and of International Consolidated Airline Group (IAG) since September 2010. He is currently a member of the Columbia Business School Board of Overseers, and Chairman of Social Board of the UNED (National Long Distance University).

**Tarak Ben Ammar:** Tarak Ben Ammar was born in Tunis in 1949. Mr. Ben Ammar has been a Director of Telecom Italia since April 14, 2008. He started his career in 1977, as a film producer. In 1990, he formed Quinta Communications, a company used as a vehicle for a number of investments and as a production and distribution company, that was also engaged in trading of audiovisual rights (acquired from U.S. producers and sold to European Broadcasters); in addition Quinta diversified its activities by building up a portfolio of strategic investments in the media services industry. In addition, Mr. Ben Ammar established close working relationships with a selected number of prominent International investors in the media industry. Mr. Ben Ammar was awarded the "Legion d'Honneur" in 1984 for his cultural contributions. Mr. Ben Ammar is Chief Executive Officer of Europa TV, Prima TV, Ex Machina SAS, Andromeda Tunisie SA, Promotions et Participations International SA, Holland Coordinator & Service Company Italia S.p.A., Eagle Pictures S.p.A. He is a member of the Board of Director of Mediobanca S.p.A. and of other companies.

**Lucia Calvosa:** Ms. Calvosa was born in 1961 in Rome. She was appointed as a member of Telecom Italia Board of Directors on August 4, 2011. She is a professor of commercial law in the Faculty of Economics of Pisa University. After graduating in 1983 in Pisa, she worked at Pisa University throughout her academic career. After obtaining a permanent position as a researcher, she qualified as an associate professor in 1998, and as a full professor in 2000. In the Faculty of Economics at Pisa, in addition to teaching Commercial Law and Bankruptcy Law in the Faculty of Economics, she also taught Private Law and Banking Law for some years. She was appointed to chair the degree course in Economics and Commerce and served two terms of office, chairs the Scientific Teaching Committee of her regional professional association of chartered accountants (Associazione Ordine Dottori Commercialisti dell'Alto Tirreno) and is a member of the Board of academic tutors for postgraduate research in Italian and international commercial law at Cattolica University in Milan. Since 2005 she has been a member of the Board of Directors of the Fondazione Teatro di Pisa, and of the Board of Directors of the Fondazione Arpa. Since 2009 she has been a member of the Board of Directors of the Pisa Chamber of Commerce. In 2008 she was appointed a member of the Fondazione Cassa di Risparmio di San Miniato and of the Fondazione Cassa di Risparmio di Pisa. From June 2008 to April 2011 she was Chairman of the Cassa di Risparmio di San Miniato S.p.A.

**Elio Cosimo Catania:** Elio Cosimo Catania was born in Catania in 1946. Mr. Catania has been a Director of Telecom Italia since April 14, 2008. He graduated in Electrical Engineering at Rome University and earned a Master in Management Science at Sloan Management School, MIT, Boston. Elio Cosimo Catania performed a large proportion of his managerial work at IBM, which he joined in 1970. He operated in four continents and held the following posts, among others: President of IBM Latin America, based in New York; Vice President of Marketing for IBM Europe, based in Paris; President and Chief Executive of IBM Italia; President of IBM South Europe. From 2004 to 2006 he has been Chairman and Chief Executive Officer of Ferrovie dello Stato. Mr. Catania was Chairman and Managing Director of ATM Group (Milan Transport Company) from May 2004 to 2011. He is Member of the Board of Management of Banca Intesa SanPaolo, Vice Chairman of Assonime (Association of Italian Joint Stock Companies), Vice President of the Council for Relations between Italy and the United States (CRISU), Member of the Committee of Confindustria and was awarded the Cavaliere del Lavoro honor in 2001.

**Massimo Egidi:** He was born in Turin in 1942. He was appointed as a member of Telecom Italia Board of Directors as of December 1, 2011. He is a professor of Economics at the LUISS Guido Carli University in Rome of which he has been the Dean since 2005. His university career took place in Turin, at the Polytechnic and then at the University's Faculty of Political Sciences (1965-86), then in Trento (from 1987 to 2004) and finally in Rome

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(2005 to date). He was the Dean of the University of Trento, from 1996 to 2004. He is currently Chairman of the Bruno Kessler Foundation of Trento. He is also a member of the Università Italo Francese and is a founding member of the Università Italo Tedesca, of which he is currently the Chairman pro tempore. He is co-chairman of the Herbert Simon Society and director of the Laboratory of Experimental and Computational Economics (CEEL, Trento). He is also a member of many scientific and academic committees, including the Scientific Committee of ESNIE—European School on New Institutional Economics, the Université de Paris X, of the Doctorate in Economics at Sciences Po (Paris). He was responsible for the National Research Programme in the sector of Economics and Social Sciences 2009-13. He is also a member of the Scientific Committee of Confindustria.

**Jean Paul Fitoussi:** Jean-Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has been a Director of Telecom Italia since May 6, 2004. Mr. Fitoussi is Professor of Economics at the Institut d'Études Politiques in Paris, where he has taught since 1982 and whose Scientific Committee he now chairs. He is currently President of the Observatoire Français des Conjonctures Économiques (OFCE), an economic research and forecasting institute. Mr. Fitoussi graduated cum laude in Law and Economics from the University of Strasbourg with a thesis on inflation, equilibrium and unemployment. He began his academic career as a contract professor at the University of Strasbourg. Between 1979 and 1983 he taught at the European University Institute, Florence, and in 1984 was visiting professor at the University of California, Los Angeles. Since 1998 he has been a member of the board of the École Normale Supérieure. In 1997 he became a member of the Prime Minister's Council for Economic Analyses. In 1996 he was named to the Commission Économique de la Nation. He was secretary of the International Economic Association beginning in 1984 and has been an expert for the Economic and Monetary Committee of the European Parliament. Between 1990 and 1993 he was Chairman of the Economic Council of the European Bank for Reconstruction and Development. In the field of publishing, Mr. Fitoussi is managing editor of the *Revue et Lettre de L'OFCE*, member of the Editorial Board of *Labour* and *The International Journal of Development Planning Literature* and the scientific committee of *International Labour Review and Critique Internationale*. His writing appears regularly in newspapers in France and abroad and he is commentator for *La Repubblica* and *Le Monde*. Since 2002 he has been Director of the Fondation Nationale des Sciences Politiques. In the field of research, Mr. Fitoussi has concentrated on inflation theory, unemployment, foreign trade and the role of macroeconomic policy. As President of the OFCE and founder of its International Economic Policy Group (of which he is a member), he has made numerous contributions to the current economic policy debate, particularly on the issues of economic integration and transition. Mr. Fitoussi has received the Association Française de Sciences Économiques (French Association for Economic Sciences) Award, and the Rossi Award from the Académie des Sciences Morales et Politiques (Academy of Moral and Political Sciences). He has been awarded various honours including the Honorary Deanship of the Faculty of Economics in Strasbourg, *Honoris Causa* degree at the Buenos Aires University, and in his own country the decorations of Chevalier de l'Ordre National du Mérite (Knight of the National Order of Merit) and Chevalier de la Légion d'Honneur (Knight of the Legion of Honour). He is a Member of various boards of national and international businesses, foundations and organizations (member of the Board of Directors of FNSP and of the Supervisory Board of Intesa SanPaolo, member of Executive Committee of the Association Internationale de Sciences Economiques, Chairman of the Commission des Nations-Unies sur la réforme du système monétaire financier international).

**Gabriele Galateri di Genola:** Gabriele Galateri di Genola was born in Rome in 1947. He was Chairman of Telecom Italia from December 2007 to April 2011. Since April 8, 2011 he has been Chairman of Assicurazioni Generali S.p.A. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analyses Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office, to Head of International Finance and, ultimately, to Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A.. He is a non-executive Board member of TIM Participações S.A., Banca Cassa di Risparmio di Savigliano S.p.A., Banca Carige, Italmobiliare S.p.A.. He is a member of the Giunta and of the Consiglio Direttivo of Confindustria; Mr. Galateri has been awarded the Cavaliere del Lavoro honor. He is also Confindustria's Chairman Representative for telecommunications and broadband development. He is member of the General Council and of the Executive Board of Assolombarda.

**Julio Linares López:** Julio Linares López was born in Medina de Pomar (Spain) in 1945. He has been a Director of Telecom Italia since November 8, 2007 and member of the Executive Committee since April 15, 2008.



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Mr. Linares has been a member of the Board of Directors and Chief Operating Officer for Telefónica since December 19, 2007. In May 1970, he joined Telefónica's Research and Development Center, where he held several positions until he was appointed head of the Technology Department. In April 1990, he was appointed General Manager of Telefónica Investigación y Desarrollo, S.A. In December 1994, he became deputy general manager of Marketing and Services Development department in the commercial area and subsequently, deputy general manager for Corporate Marketing. In July 1997, he was appointed chief executive officer of Telefónica Multimedia S.A. and chairman of Telefónica Cable and Producciones Multitemáticas S.A. In January 2000, he was appointed executive chairman of Telefónica de España, S.A., a position which he held until December 2005, when he was appointed managing director for Coordination, Business Development and Synergies of Telefónica. He is also a member of the Board of Directors of Telefónica España, Telefónica Europe, Telefonica Latinoamérica and of the Social Council of the Complutense University of Madrid. Mr. Linares holds a degree in telecommunications engineering from the Polytechnic University of Madrid (Universidad Politécnica de Madrid).

**Gaetano Micciché:** Gaetano Micciché was born in Palermo in 1950. Mr. Micciché has been a Director of Telecom Italia since July 24, 2007. He graduated in Law and then obtained a Master in Business Administration with merit at the SDA Bocconi. He began his professional experience in 1971 as Manager for Corporate Clients at Cassa Centrale Risparmio Province Siciliane. In 1989 he was appointed Central Financial Director at Rodriguez S.p.A., world leading company in the high-speed navigation sector. From 1992 to 1995 he was Managing Director and later Liquidating Administrator at Gerolimich—Unione Manifatture, Holding Company with stakes in various industrial sectors. In 1996 he became General Manager of Santavaleria S.p.A., industrial Holding Company in chemical and glass sectors. From 1997 to 2002 he was Chief Executive Officer and General Manager of Olcese S.p.A. Since 2002 he has been in Intesa Sanpaolo S.p.A. as Head of Corporate & Investment Banking Division. Since 2007 Mr. Micciché has been Chief Executive Officer of Banca IMI. He is also Member of the Board of Directors of Alitalia – Compagnia Aerea Italiana S.p.A., Prada S.p.A., Edison S.p.A., Borsa Italiana S.p.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Banca Caboto S.p.A., 21 Investimenti S.p.A., Nuovo Trasporto Viaggiatori S.p.A. and member of Supervisory Board of Fondazione Ricerca e Imprenditorialità.

**Renato Pagliaro:** Renato Pagliaro was born in Milan in 1957. Mr. Pagliaro has been a Director of Telecom Italia since May 6, 2004. A registered auditor, with a Degree in Corporate Economics from Bocconi University, he joined Mediobanca – Banca di Credito Finanziario S.p.A. in 1981, where he has held positions of increasing responsibility. In April 2003 he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A.; he was Chairman of the Management Board from July 2007 to October 2008 and Managing Director of Mediobanca S.p.A. from October 2008 to May 2010. In May 2010 he was appointed Chairman of the Board of Directors of Mediobanca. He is a Deputy Chairman of RCS Mediagroup S.p.A. and Director of Pirelli & C. S.p.A. Since 1993 he has been a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l.

**Mauro Sentinelli:** Mauro Sentinelli was born in Rome in 1947. Mr. Sentinelli was appointed a Director of Telecom Italia on April 29, 2010. An electronic engineer with a masters degree in telecommunications, Mr. Sentinelli joined SIP (presently Telecom Italia) in 1974, where he specialized in the mobile business. In 1991 he became Director of Marketing and Planning in the Mobile Division of the company and in 1994 he was appointed Deputy Managing Director of Telecom Italia's Mobile Division (to become a separate company in 1995 as a result of the Tim de-merger). In May 1997 he left TIM for an experience in the U.S. and in July 1999 he returned to TIM as Group Managing Director. In April 2002 he became a director of TIM, finally leaving the company in January 2005. He was Deputy Chairman of the GSM Association from 2003 to 2008, board member of Onda Communication (Italy) and Barhi Airtel (India) up to 2010. Presently Mr. Sentinelli is a Member of the Board of GSMA Ltd, the industrial branch of the GSM Association. He is also Chairman of Enertel Servizi S.p.A.

**Luigi Zingales:** Luigi Zingales was born in Padua in 1963. Mr. Zingales has been a Director of Telecom Italia since April 16, 2007. Luigi Zingales is the Robert C. McCormack Professor of Entrepreneurship and Finance at the Graduate School of Business of the University of Chicago, where he has been a member of the faculty since 1992. In 2005-2006 he held the Taussig Research Professorship at Harvard University. He is a faculty research fellow of the NBER, a research fellow of the Centre for Economic Policy Research (CEPR), a member of the Committee on Capital Market Regulation, and of the United Nation Advisory Board on Microfinance. In 2003 he won the Bernacer Prize for the best young European financial economist. From 2005 to 2009 he was a director of the American Finance Association. His research interests span from corporate governance to financial development, from political economy to the economic effects of culture. He has published extensively in the major economics and financial journals. He is an editorialist for "Il Sole 24 ore" (the leading Italian economic newspaper) and for L'Espresso.

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## 6.2 EXECUTIVE OFFICERS

As of May 14, 2012, the executive officers of Telecom Italia and their respective positions were as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointed</u>
<b>Directors:</b>			
Franco Bernabè .....	63	Executive Chairman and Chief Executive Officer(1) .....	2011
Marco Patuano .....	47	Domestic Managing Director and Chief Operating Officer (1) .....	2011
<b>Managers(2):</b>			
Simone Battiferri .....	44	Head of Top Clients and Public Sector .....	2012
Franco Bertone .....	58	Dirección General Ejecutiva (CEO) Telecom Argentina .....	2009
Franco Brescia .....	50	Head of Public & Regulatory Affairs .....	2011
Stefano Ciurli .....	49	Head of Purchasing .....	2009
Antonino Cusimano .....	47	Head of Legal Affairs .....	2008
Andrea Mangoni .....	48	Chief Financial Officer and Head of Administration Finance and Control and International Development .....	2009
Antonio Migliardi .....	53	Head of Human Resources and Organization ...	2008
Giuseppe Roberto Opilio .....	53	Head of Technology .....	2011
Luca Rossetto .....	49	Head of Consumer .....	2011
Alessandro Talotta .....	45	Head of National Wholesale Services .....	2011

(1) Appointed by the Board of Directors on April 13, 2011.

(2) On May 4, 2012, Mr. Luca Luciani, the CEO of Tim Participações and executive officer of Telecom Italia, resigned from Tim Brasil and Tim Participações, giving up all his mandates in the Group's companies. Please see "Item 4. Information on the Telecom Italia Group—4.1. Business—4.1.5 Recent Developments During 2012".

The following are the selected biographical data of the executive officers, other than Directors (for the biographical data of Mr. Franco Bernabè and Mr. Marco Patuano, please see above under "—6.1 Directors"):

**Simone Battiferri:** Mr. Battiferri was born in Rome in 1967. Since December 30, 2011 he has been Head of Top Clients and Public Sector at Telecom Italia. He started with the Telecom Italia Group in 2001 as Head of Marketing in Datacom – eBusiness Solutions Business Unit. At the end of 2001, in the context of the new organisational model involving the merger of the previous Business Units into Telecom Italia Wireline, he became Head of Web Services Marketing, and remained there until April 2004, when he became Head of the Business Opportunity Evaluations Area in the International Business sector.

This marked the start of his involvement in the international activities, which last until the beginning of 2010. In April 2006 he became Head of Marketing in Telecom Argentina, occupying this position until April 2007, when he was appointed COO of the Wireline Unit in the same company. In July 2009, after the merging of the Top Clients Unit into the Wireline one, he became COO of the new Wireline & Top Clients Unit.

In February 2010 he came back to Italy to be appointed Head of Top Clients at Telecom Italia.

Before entering the Telecom Italia Group he spent several years in Etnoteam, where he occupied increasingly important positions and left the company as VP for the Telecommunications & Media Market and Director of Etnoteam Labs.

Among his various professional experiences before Etnoteam, in Italy and abroad (mainly in the United States, as well as Germany and the Czech Republic), he conducted research & development activities with the "La Sapienza" University of Rome in the Rome Electrical Machine and Power Electronics Group (REMPEG). Mr. Battiferri is also member of the Board of Directors of Telecom Italia Sparkle S.p.A.

**Franco Bertone:** Mr. Bertone was born in Milan in 1952. He has been Chief Executive Director of Telecom Argentina since 2009. He graduated in electrical engineering at Pavia University in 1977. Mr. Bertone began his career in 1978 in Sirti. Until November 1997 he held various activities in the design, installation, commissioning maintenance facilities. From 1988 to 1990 he was Head of Systems Group Milan in the Advanced Systems Division. From 1992 to 1997 Mr. Bertone was Head of the British subsidiary SIRT Ltd. based in London. On December 1997, Mr. Bertone joined Telecom Italia and was appointed Director of Entel Bolivia SA (controlled by the Group company ETI—Euro Telecom International NV) based in Bolivia; in December 1997, he was appointed



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Executive Chairman. From March 2001 to June 2003, he was Head of the Area Manager Latin America of Telecom Italia based in Buenos Aires. Mr. Bertone has been Head of the Coordinamento Societario in TI Latam until 2003 and from 2004 he has been Head of Shareholders Relations. In June 15, 2006 he was appointed Chairman of Entel Bolivia. From September 2008 to March 2009, Mr. Bertone has been Chief Operating Officer of Telecom Argentina—fixed telephony.

**Franco Brescia:** Mr. Brescia was born in San Costantino Albanese (Potenza) in 1961. Since April 15, 2011 he has been Head of Public and Regulatory Affairs at Telecom Italia.

After graduating cum laude in Business and Economics at La Sapienza University of Rome, he began his professional career in 1985 as a researcher at Censis.

From 1987 to 1989 he was National Press, Research and Parliament Relations Manager at the Italian Confederation of Cooperatives.

In December 1989 he joined Stet-Telecom Italia Group, where he was given progressively increasing responsibilities in the fields of Management Control, Marketing, International, Press and Institutional Relations until he became Staff Head of Presidents and Deputy Managers.

In 2003 he joined Poste Italiane as Head of Local Institutional Affairs.

In October 2006 he joined Telecom Italia, where he took different positions: first he was Assistant to the Chairman; in December 2006 he was appointed Head of Public Affairs; in May 2007 he became Head of Business Management & Intellectual Property Rights; from February 2008 he was an Executive Assistant to the Deputy Manager; in February 2010 he was appointed Head of Institutional Relations.

Franco Brescia also obtained a Master's degree in Communication at La Sapienza University of Rome and a Master's degree in Lobbying e Public Affairs at Lumsa University of Rome. Moreover, he is a Contract Professor.

**Stefano Ciurli:** Mr. Ciurli was born in Rome, in 1962. He graduated in Economics at LUISS University in 1987. He was appointed Head of the Purchasing department of Telecom Italia on March 16, 2009. He began his professional career in 1987 in SIP, over 20 years in Telecom Italia with increasing responsibilities mainly within the Finance Administration and Control department. From July 2003 to December 2005 he served as Chief Financial Officer of TIM. In 2006 he was in charge of the International Support area with the responsibility on the activities of business development and plug&play opportunities at international level. From August 2008 to March 2009, he served as head of the Planning & Control department of Telecom Italia. Mr. Ciurli is also Chairman of Telenergia and of Olivetti Multi Service; he is member of the Board of Directors of Shared Service Center S.r.l., Telecom Italia International N.V. and Telecontact S.p.A.

**Antonino Cusimano:** Mr. Cusimano was born in Palermo, in 1964. He was appointed General Counsel and Head of Telecom Italia Corporate and Legal Affairs on September 15, 2008, Secretary to the Board of Directors on September 25, 2008 and Telecom Italia's Head of Legal Affairs a.i. on December 23, 2008.

Mr. Cusimano was an associate at Hill Taylor Dickinson, London, prior to joining the Pittsburgh based company, PPG Industries Inc. in 1994. He was appointed General Counsel of PPG Industries Europe in 2000, with responsibility for a wide range of legal and business issues. From 2003 to 2005 he served as General Manager, Environmental, Health and Security Protection of PPG Industries Europe and between May and December 2005, he held the position of Corporate Counsel.

Mr. Cusimano joined General Electric, Oil & Gas based in Florence serving as Senior Counsel Global Services and Transactions. During his time at GE, he was a Director and Vice President at Nuovo Pignone Holding S.p.A. and Nuovo Pignone S.p.A.

**Andrea Mangoni:** Mr. Mangoni was born in Terni, in 1963. He graduated from the University of Rome in 1988 with a thesis on valuation and private financing of investments in public infrastructures. He was head of Administration, Finance and Control at Telecom Italia since November 2009. Mr. Mangoni joined the Telecom Italia Group on July 1, 2009, as Chairman of Telecom Italia Sparkle and as Director of International Business at Telecom Italia S.p.A. After a previous experience in InterAmerican Development Bank (IDB), from 1996 to March 2009 he worked at Acea, where he was appointed Chief Executive Officer in November 2003; from March 2003 to November 2003 he was General Manager of Acea; from June 2001 to February 2003 he was Chief Financial Officer, responsible for strategies, finance, budget, economic planning and control, and investor relations of Acea; in 2002 he was appointed common representative of the Joint Venture among Acea, Electrabel and Energia Italiana which brought to the acquisition of Interpower, the third generation company sold by Enel; from January 2000 to May 2001 he was Strategic Planning Director of Acea; from January 1998 to December 1999 he worked

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as manager of the Finance Department of Acea and he was responsible of strategic planning; from 1996 to 1997 he was President Assistant, responsible for the transformation process of Acea from municipal company into share capital company.

**Antonio Migliardi:** Mr. Migliardi was born in Reggio Calabria in 1958. On May 1, 2008, he became Head of Human Resources and Organization of Telecom Italia. After graduating in Law, Mr. Migliardi began his career at SIP (later Telecom Italia) with responsibility for Human Resources. At first, he was Responsible for Human Resources and Industrial Relations Regional Dept., then he assumed a central responsibility in the Industrial Relations Sector. From 1998 to 2004 he was in charge of the Development and Organization Dept. in FS Group. Reporting to the Chief Executive Officer and the Managing Director of the Group, he was appointed to head the project and implement the reorganization of the Italian railways. He was appointed as internal member of Trenitalia's (the most important subsidiary of F.S. Group, constituted in 2000) board. In charge of Trenitalia's System Dept. (logistics & maintenance, Information and Communication Technology and Total Quality Management), he reported to the Chief Executive Officer, mission and corporate goals: obtaining the alignment of these systems to the new competitive scenario in which Trenitalia had to act in the coming years. As head of Total Quality Management, he was also member of the board of "Qualital" (an Italian consortium for the Engineering of Total Quality). From 2004 to 2006 he was with Alitalia, reporting to the Chief Executive Officer, as Chief Production Officer (Flight Ops, Ground Ops, Maintenance etc.) and Accountable Manager according to the international regulations (JAR Ops) until the recapitalization of the Company. From 2006 to 2008 he was in charge of Human Resources and Organization Dept. of Vitrociset. Mr. Migliardi is also member of the Board of Directors of Telecontact S.p.A. and Telecom Italia Sparkle S.p.A.

**Giuseppe Roberto Opilio:** Mr. Opilio was born in Rome in 1958. Since April 15, 2011 he has been Head of Technology at Telecom Italia.

Mr Opilio began his career at the Parfina Group (a chemicals company) in 1982 as an assistant to the plant manager.

In 1983, he joined GEPI as Head of Organizational Consulting/Group EDP.

He moved to management consulting company Galgano in 1988 to work as operations manager.

He joined TIM in 1991 as Head of Organizational Development. In 2001, he was appointed Director of Human Resources, a position he held until 2004, when he was named Head of Customer Operations.

Following the merger of TIM and Telecom Italia, he went to run Business Customer Operations (fixed-line/mobile integration), and later became Head of Group Quality.

In February 2008 he was appointed Manager of the Open Access Department.

He won the "Human Resources Excellence Award" (AIDP-EAPM) in 2001.

Mr Opilio was a director at a number of companies, including STET Hellas (Greece), Atesia, Assida, and Telecontact. Mr. Opilio is also member of the Board of Directors of Telecom Italia Sparkle S.p.A.

**Luca Rossetto:** Mr. Rossetto was born in Biella in 1962. Since April 15, 2011 he has been Consumer Director at Telecom Italia.

His professional career began in Tekfen Group in 1985.

From 1987 to 1992 he was Senior Expert in Andersen. From 1993 to 1998 he was in Boston Consulting Group, first as a Consultant and later as a Project Manager.

In 1998 he joined Autogrill S.p.A., where he first held the position of Sales and Logistic Director, then became General Manager in 2000. From 2002 to January 2005 he was in Vodafone as Chief Operating Officer and member of the Board of Directors. In 2005 he was appointed Chief Executive Officer in La Rinascente/UPIM S.p.A., a position he maintained until 2009. From 2009 to April 2011 he worked as a Consultant. In April 2011 he joined Telecom Italia as Consumer Director.

**Alessandro Talotta:** Mr. Talotta was born in Catanzaro in 1966. Since April 15, 2011 he has been Head of National Wholesale Services at Telecom Italia and member of the Board of Directors of Telecom Italia Sparkle.

He began his career in 1990 at Italtel S.p.A. (Società Italiana per le Telecomunicazioni) in the Strategic Planning and Marketing Development, where for six years he worked as Senior Manager.

In 1996, he joined Infostrada S.p.A. as Head of Strategic Planning and National/International Interconnection.

He remained at Infostrada after Enel's 2001 acquisition of the company from Vodafone, as head of Fixed and Mobile International Carrier Development.

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That same year he moved to the Telecom Italia Group as Operations Supervisor. Before the year was out, he was put in charge of National Wholesale Services Marketing, Sales, Customer Service, Project management and Pricing for Wholesale, as well as overseeing operational services for this business segment.

In 2005, after Telecom Italia Mobile (TIM) merged into the Telecom Italia Group, the Wholesale department took over responsibility for mobile network services too. In 2008, Mr. Talotta joined the Business Strategies & International Development Management unit with the same responsibilities as before. Mr. Talotta was appointed Manager and Executive Vice President of Telecom Italia National Wholesale Services from December 2001 to April 2008.

In April 2008 he was appointed Chief Regulatory Officer of Telecom Italia and Member of the CROG at the GSMA. He is also a member of the IPTV Association.

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### 6.3 BOARD OF AUDITORS

The following table lists the members of the Telecom Italia Board of Statutory Auditors as of May 4, 2012, including the Alternate Auditors, with their respective positions and years of appointment. The current Telecom Italia Board of Statutory Auditors was appointed in the shareholders' meeting held on April 8, 2009, and will remain in office until approval of the 2011 annual financial statements.

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Enrico Maria Bignami(1)	Chairman	2009
Gianluca Ponzellini	Acting Auditor	2009
Lorenzo Pozza(1)	Acting Auditor	2009
Salvatore Spiniello	Acting Auditor	2009
Ferdinando Superti Furga	Acting Auditor	2009
Silvano Corbella(1)	Alternate Auditor	2009
Maurizio Lauri(1)	Alternate Auditor	2009
Vittorio Giacomo Mariani	Alternate Auditor	2009
Ugo Rock	Alternate Auditor	2009

(1) Elected by minority shareholders.

The positions held by the members of the Board of Statutory Auditors in other listed companies are shown below:

Enrico Maria Bignami	Chairman of the Board of Auditors of Biancamano S.p.A.
Gianluca Ponzellini	Chairman of the Board of Auditors of De Longhi S.p.A.; member of the Supervisory Board of Intesa Sanpaolo S.p.A.
Lorenzo Pozza	Chairman of the Board of Auditors of Gas Plus S.p.A.; member of the Board of Auditors of Terna S.p.A.
Salvatore Spiniello	Chairman of the Board of Auditors of Telecom Italia Media S.p.A.; Director of Fondiaria SAI S.p.A.
Ferdinando Superti Furga	Chairman of the Board of Auditors of Arnoldo Mondadori S.p.A. and Saras S.p.A.

In view of the Shareholders' Meeting to be held on May 15, 2012, the following slates of candidates for the position of Statutory Auditors have been duly filed by entitled shareholders.

Slate by Telco S.p.A. (owning a total amount of around 22.4% of Telecom Italia ordinary share capital):

- Candidates for the position of acting auditors:
  1. Gianluca Ponzellini, born in Varese, on February 7, 1947;
  2. Salvatore Spiniello, born in Siracusa, on April 26, 1951;
  3. Ferdinando Superti Furga, born in Milano, on January 20, 1932;
  4. Lelio Fornabaio, born in Stigliano (MT), on June 16, 1970;
  5. Mario Ragusa, born in Roma, on March 15, 1963.
- Candidates for the position of alternate auditors:
  1. Ugo Rock, born in Napoli, on March 14, 1950;
  2. Vittorio Mariani, born in Milano, on December 19, 1938;
  3. Luigi Merola, born in Eboli (SA), on October 1, 1971;
  4. Luca Novarese, born in Savona, on June 16, 1967.

Slate by Findim Group S.A. (owning a total amount of around 4.9% of Telecom Italia ordinary share capital):

- Candidates for the position of acting auditors:
  1. Lorenzo Pozza, born in Milano, on October 11, 1966.

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- Candidates for the position of alternate auditors:

2. Massimiliano Carlo Nova, born in Milano, on December 15, 1967.

Slate by a group of asset management companies and international institutional investors (jointly owning a total amount of around 1.57% of Telecom Italia ordinary share capital):

- Candidates for the position of acting auditors:

1. Enrico Bignami, born in Milano on May 7, 1957;
2. Sabrina Bruno, born in Cosenza on January 30, 1965.

- Candidates for the position of alternate auditors:

3. Roberto Capone, born in Milano on November 30, 1955;
4. Franco Patti, born in Palermo on February 17, 1957.

For a detailed description of Telecom Italia's corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company) and the mechanics for its appointment, see "Item 10 Additional Information—10.1 Corporate Governance".

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## 6.4 EXTERNAL AUDITORS

The audit of issuers and their groups is governed by Legislative Decree No. 58/1998 (the Consolidated Law on Finance), as subsequently amended by Legislative Decree No. 39 of January 27, 2010 (implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts). In particular, such Legislative Decree fixed the duration of audit engagements at nine years and prohibited the renewal or the re-engagement unless at least three years have elapsed from the date of termination of previous assignment.

The Shareholders' Meeting held on April 29, 2010 resolved to appoint PricewaterhouseCoopers S.p.A. as Telecom Italia's independent auditors for the nine-year period 2010-2018 beginning with the financial year ended December 31, 2010. PricewaterhouseCoopers S.p.A., immediately after the filing with the SEC of our 2009 Form 20-F, that occurred on May 21, 2010, became the principal audit firm for the Telecom Italia Group, also for US purposes.

Italian audit principles require that, in case of corporate groups, the audit firm of Telecom Italia should carry out the audit of the group's most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation on the financial statements in their entirety. In addition, the Guidelines for the Appointment of external Auditors (the "Group Procedure"), issued by Telecom Italia in March 2010 in view of the engagement of the new audit firm for the 2010-2018 period, provides that the auditor of Telecom Italia is the principal auditor of the entire group headed by Telecom Italia and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

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## 6.5 EMPLOYEES

### 6.5.1 EMPLOYEES AND CHANGES IN THE TELECOM ITALIA GROUP

The number of Group employees at December 31, 2011 and 2010 was the following:

	Year ended December 31,		
	2011	2010	Changes
		(units)	
Employees—Italy .....	56,838	57,994	(1,156)
Employees—Foreign .....	27,274	26,135	1,139
<b>Total Employees at payroll .....</b>	<b>84,112</b>	<b>84,129</b>	<b>(17)</b>
Employees with temporary work contracts .....	42	71	(29)
Employees allocated to non-current assets held for sale .....	—	—	—
<b>Total Employees .....</b>	<b>84,154</b>	<b>84,200</b>	<b>(46)</b>

Excluding personnel with temporary work contracts, the Group's workforce decreased by 17 units compared to December 31, 2010, due to:

- the exclusion of Loquendo from the scope of consolidation (103 units);
- the inclusion of 4GH (699 units) and of the two Brazilian companies, TIM Fiber RJ and TIM Fiber SP (for a total of 302 units) in the scope of consolidation; and
- the workforce turnover down by 915 units. The workforce turnover is detailed below by individual Business Unit:

	Hirings	Terminations	Changes
		(units)	
Domestic .....	614	2,347	(1,733)
Brazil .....	4,523	4,400	123
Argentina .....	1,824	1,107	717
Media, Olivetti, Other Operations .....	191	213	(22)
<b>Turn over .....</b>	<b>7,152</b>	<b>8,067</b>	<b>(915)</b>

The number of employees operating in Italy, excluding employees with temporary work contracts, is 68%.

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

	Year ended December 31,		
	2011	2010	Changes
		(units)	
Personnel on payroll .....	47,801	49,636	(1,835)

The reduction of 1,835 units was recorded, due to:

- a balance of 7 units departing to join other Group companies;
- workforce turnover down by 1,828 units, as detailed below:

	Hirings	Terminations	Changes
		(units)	
Telecom Italia S.p.A.—Turn over .....	106	1,934	(1,828)

#### *Tim Brasil group*

	Year ended December 31,		
	2011	2010	Changes
		(units)	
Tim Brasil group—Total .....	10,539	10,114	425



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The increase of 425 units was recorded, due to:

- a balance of 1 units departing to join other Group companies;
- the inclusion of the two Brazilian companies, TIM Fiber RJ and TIM Fiber SP in the scope of consolidation (for a total of 302 units);
- workforce turnover up by 122 units, as detailed below:

	<u>Hirings</u>	<u>Terminations</u> (units)	<u>Changes</u>
Tim Brasil group—Turn over .....	<u>4,522</u>	<u>4,400</u>	<u>122</u>

### ***Argentina Business Unit***

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u> (units)	<u>Changes</u>
Argentina Business Unit—Total .....	<u>16,349</u>	<u>15,632</u>	<u>717</u>

## **6.5.2 INDUSTRIAL RELATIONS**

During 2011, many informational and discussion meetings were held with the trade unions to review the reorganisation activities involving the various company departments (Customer, Technology, Staff) and to examine any effects on personnel.

Trade union representatives were involved in the business ethics certification process for the Open Access department (SA 8000 Certification). The certification, obtained in May 2011, relates to the company's ethical performance and is a tool used to inform customers that the company's products are made under proper working conditions and with respect for human rights in the performance of production activities.

With regard to the "solidarity" contract applied to about 29,200 employees of Telecom Italia S.p.A. for the two-year period between November 8, 2010 and November 7, 2012, in accordance with the agreement of October 25, 2010, the Company and the trade unions held specific verification meetings aimed at discussing the many initiatives taken by Telecom Italia S.p.A. to favour repositioning of redundancy personnel. Training is a crucial element for the success of staff skill re-orienting and improvement processes. For this purpose specific projects have been discussed with the trade unions.

One of the most significant initiatives launched by Telecom Italia, as a sustainable company that contributes to the economic and social development of the country, is the Senior Apprenticeship Project. The initiative aims to promote closer relations between the academic world and the world of work in southern Italy. The project was agreed with the trade unions (SLC-CGIL, FISTel-CISL, UILCom-UIL) under an agreement signed on March 4, 2011. In order to strengthen its commitment and extend these initiatives to a wider geographical area, and through an agreement signed on July 27, 2011, Telecom Italia S.p.A. shared further projects with the trade unions.

In accordance with current legislative provisions regarding company transfers, Telecom Italia S.p.A. involved the trade union representations in both procedures carried out during the year, which ended with positive joint assessments:

- the first, which took place in May, is related to the transfer of the "Market & Technology Captive" division by Matrix S.p.A to Telecom Italia S.p.A. The company and trade union signed a specific agreement to make contract work conditions homogeneous for all workers who joined Telecom Italia S.p.A. after October 1, 2011;
- the second, which was completed in September, relates to all employees of the company TI Audit & Compliance Services S.C.a R.L. which, following the merger by incorporation, was transferred without interruption to Telecom Italia S.p.A.

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In accordance with the agreements reached with the workers' representatives under the framework agreement of August 4, 2010 for the management of surplus staff at Telecom Italia S.p.A., on July 27, 2011 an additional two-year extension of the "defensive solidarity" contract was agreed between the Company and the trade unions. This will apply until August 31, 2013 to employees working in the Directory Assistance sector of the Company (12.54, directory data assurance, call centres, international services centre, local support). The workers affected will be partially reimbursed by INPS for compensation lost as a result of the reduction in working hours.

### **Telecom Italia Media**

On December 21, 2011, an agreement was signed with the trade union representatives of Telecom Italia Media, both national and local, regarding the overall limit set by the law to the temporary employment contracts. This limit is set by the article 5, paragraph 4-bis, of legislative decree No. 368 of September 6, 2001, as amended by law 133/2008. This limit was raised from 36 to 63 months in total. The agreement also governs certain aspects of fixed term and permanent employment contracts and various issues relating to employment discipline.

As regards relations with other unions, on May 20, 2011 the companies Telecom Italia Media S.p.A. and Telecom Italia Media Broadcasting S.r.l. jointly signed an agreement with the national and local trade union representatives and the company's workers' representatives relating to the methods for electing trade union representatives and workers' safety representatives. Finally the renewal of the national collective agreement for the employees of private radio and television companies was signed on February 16, 2011.

### **Tim Brasil**

At the beginning of the year, the national collective agreement (valid until November 2011) was signed with 26 trade unions. The terms of the final proposal were accepted by 21 trade unions (representing around 97% of employees) and the final adjustment phase is nearing completion for the missing 3%. In September, the company launched a new phase of negotiations with the trade unions, which was completed successfully with 19 trade unions representing 90% of employees signing a new collective agreement (valid until November 2012). The final proposal include profit distribution agreements for the 2011-2012 period. Negotiations continued with the trade unions with which an agreement was not reached.

### **Telecom Argentina**

Since 2010, trade unions in the telephone industry have merged into a federation of telecommunication unions called MUS (Mesa de Unidad Sindical de las Telecomunicaciones), which is the main forum for dialogue about the various issues being negotiated. In this context, joint negotiations were conducted in 2011 and salary increases were agreed that will apply until the end of 2012.

During 2011, the application of teleworking continued as part of the pilot programme for the implementation and promotion of teleworking in the private companies PROPET (Programa Piloto de Seguimiento y Promoción del Teletrabajo en Empresas Privadas) of the National Ministry of Employment MTEYSS (Ministerio de Trabajo, Empleo y Seguridad Social), as an additional tool for achieving a better work-life balance. The programme was applied during 2011 to 66 employees in several areas of the company in 11 different provinces.

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## 6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS

### 6.6.1 COMPENSATION OF DIRECTORS

The General Shareholders' Meeting held on April 12, 2011, set the maximum total annual remuneration of the Board of Directors (to remain in office for a three-year term, until the approval of the 2013 financial statements), according to article 2389, first paragraph, of the Italian Civil Code up to 2.2 million euros, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

According to the resolution adopted by the Board on May 5, 2011, the above mentioned overall amount was distributed as follows (gross amounts on a yearly basis):

- 110,000 euros to be paid to each director in office;
- an additional 35,000 euros to be paid to each member of the Executive Committee;
- an additional 45,000 euros to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional 20,000 euros to be paid to each member of the Nomination and Remuneration Committee;
- an additional 20,000 euros to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001 (see "Item 10 Additional Information—10.1 Corporate Governance");
- an additional 90,000 euros to be paid to the Deputy Chairman (Aldo Minucci), in view of his responsibilities for the internal control system.

The total compensation paid by Telecom Italia and by the Telecom Italia Group subsidiaries in 2011 to the members of the Board of Directors of Telecom Italia was 6.3 million euros.

Following the renewal of the Board of Directors (Shareholders' Meeting of April 12, 2011) the remuneration package of the Executive Chairman (Mr. Bernabè, who is not an employee of the Company), for the three years of his appointment to the board, has been agreed by contract as follows:

- fixed annual remuneration of 110,000 euros gross for his position as a Director;
- fixed annual remuneration of 1.4 million euros gross for his position as Chairman of the Board of Directors;
- fixed annual remuneration of 35,000 euros gross for his position as member of the Executive Committee;
- variable remuneration linked to annual performance objectives, with a target value equal to his fixed annual remuneration for the position of Chairman of the Board of Directors and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration for the position of Chairman of the Board of Directors, consisting of:
  - a cash bonus of 2.1 million euros (150% of the fixed annual remuneration); and
  - 2,253,702 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices of Telecom Italia ordinary shares between 7 June and 6 July 2011);
- benefits similar to those granted to Group executives (company car, medical and accident insurance, complementary healthcare, complementary welfare) enjoyed free of any direct or indirect charges, with a corresponding increase in the remuneration for the position of Executive Chairman by the amount required to pay the tax applicable to taxed benefits. With specific reference to complementary welfare, provision is made for the Company to make an annual net payment to the Company complementary welfare fund amounting to (i) 10% of his fixed remuneration and (ii) 10% of the annual bonus applicable for achievement of the target results.

Provision was also made for the payment to the Executive Chairman of amounts due until the end of the period of office, including the variable component, calculated to correspond to the average of disbursements already made, in the event of early termination of his term of office (i) for objective reasons, (ii) on the company's initiative

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without just cause, (iii) on the initiative of Mr Bernabè with just cause. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year's remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

The remuneration package of the Domestic Managing Director and Chief Operating Officer of the Company (Mr. Patuano, who is an employee of Telecom Italia) has been agreed by contract as follows, subject to waiver of the remuneration due for the position of Director and member of the Executive Committee:

- fixed annual remuneration of 1.0 million euros gross as the annual gross remuneration for his employment relationship with the Company;
- variable remuneration for the position of Chief Executive Officer linked to annual performance objectives, with a target value equal to his fixed annual remuneration and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration, consisting of
  - a cash bonus of 1.5 million euros (150% of the fixed annual remuneration) and
  - 1,609,787 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices Telecom Italia ordinary shares between 7 June and 6 July 2011);
- benefits similar to those granted to Group executives (company car, accident and medical insurance, complementary healthcare, complementary welfare).

Provision was also made for the payment of remuneration for the special position held (short term variable remuneration value, calculated as the average of the amounts received since 2011), in the event of early termination due to (i) early withdrawal of the administration relationship by the Company without just cause; (ii) resignation by Mr Patuano at the request of the Board of Directors; (iii) resignation by Mr Patuano with just cause. The procedure set forth in the collective labour agreement for company executives was established as being applicable in the event of a termination of employment relationship by the Company (unless there is just cause) or resignation requested by the Board of Directors. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year's remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

The performance indicators for short-term variable component of compensation for the year 2011 were established as follows, on the basis of a proposal by the Nomination and Compensation Committee and with the approval of the Board of Statutory Auditors:

- Executive Chairman of the Board of Directors and Chief Executive Officer of Telecom Italia
  - Consolidated Net Income post minorities (weight: 25%),
  - Consolidated Net Financial Position (weight: 15%),
  - Consolidated Organic ebitda (weight: 15%),
  - Group Total Organic Revenues (weight: 25%)
- Domestic Managing Director and Chief Operating Officer of the Company
  - Consolidated Net Income post minorities (weight: 15%),
  - Italy Net Financial Position (weight: 10%),
  - Telecom Italia Domestic ebitda (weight: 10%),
  - Telecom Italia Customer Satisfaction Index (weight: 10%),
  - Domestic Organic Total Revenues (weight: 35%).

The targets for the above parameters were set in accordance with the 2011 budget and allowed for a negative deviation down to a minimum threshold value and a maximum payout for the achievement of predetermined positive deviations. Deviations were differentiated according to the relevant indicators and intermediate

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performance results were to be measured proportionally. In addition to the quantitative parameters (the total weight of which was 80%) there was a qualitative valuation criteria (weight: 20%) consisting of the discretionary judgement of the Board of Directors. The final pay-outs of the short term compensation of the Executive Chairman and the Domestic Managing Director for the year 2011 were 110% and 55% of their fixed compensation, that are 1,540,000 and 550,000 euros, respectively.

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The following table lists the Directors who served during 2011 and their respective compensation as of December 31, 2011, according to the disclosure format set forth by Consob, the Italian market regulator (Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions):

The following table lists the Directors who served during 2011 and their respective compensation as of December 31, 2011. The compensation relates only to the period of 2011 in which they served as set forth below:

Name and surname	Position	Period for which the position was held	Expiry of term of office	Fixed remuneration	Remuneration for involvement in committees	Variable non-equity remuneration	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Compensation for loss of office or termination of employment
						Bonuses and other incentives	Profit sharing				
(thousands of euros)											
Gabriele Galateri	Chairman	1/1 – 4/12/2011		400 <sup>(1)</sup>	10(2)			3	413	66	
	Director	4/13 – 12/31/2011	12/31/2013	83(3)	14(4)				97		
Franco Bernabè	CEO	1/1 – 4/12/2011									
	Executive Chairman and Chief Executive Officer	4/13 – 12/31/2011	12/31/2013	1,778(5)	35(2)	1,540(6)		327	3,680	420	
Marco Emilio Angelo Patuano	Domestic Managing Director and Chief Operating Officer	4/12 – 12/31/2011	12/31/2013	1,222(7)		569(8)		52	1,843	188	
Aldo Minucci	Deputy Chairman	1/1 – 12/31/2011	12/31/2013	174(9)	53(10)				227		
Cesar Izuel Alierta	Director	1/1 – 12/31/2011	12/31/2013	110(3)					110(11)		
Paolo Baratta	Director	1/1 – 4/12/2011	12/31/2010	37(12)	13(13)				50		
Ferdinando Beccalli Falco	Director	4/13 – 6/6/2011	12/31/2013	17(3)	5(14)				22(15)		
Tarak Ben Ammar	Director	1/1 – 12/31/2011	12/31/2013	110(3)					110		
Roland Berger	Director	1/1 – 12/4/2011	12/31/2010	31(3)	23(16)				54		
Lucia Calvosa	Director	8/5 – 12/31/2011	12/31/2013	45(3)	11(17)				56		
Elio Catania	Director	1/1 – 12/31/2011	12/31/2013	110(3)	87(18)				197		
Massimo Egidi	Director	12/1 – 12/31/2011	12/31/2013	9(3)					9		
Jean Paul Fitoussi	Director	1/1 – 12/31/2011	12/31/2013	123(19)	59(20)				182		
Julio Linares Lopez	Director	1/1 – 12/31/2011	12/31/2013	110(3)	35(14)				145(11)		
Gaetano Micciché	Director	1/1 – 12/31/2011	12/31/2013	110(3)					110(21)		
Renato Pagliaro	Director	1/1 – 12/31/2011	12/31/2013	110(3)	35(14)				145(22)		
Francesco Profumo	Director	4/13 – 11/16/2011	12/31/2013	65(3)	32(23)				97		
Mauro Sentinelli	Director	1/1 – 12/31/2011	12/31/2013	110(3)	57(24)				167(25)		
Luigi Zingales	Director	1/1 – 12/31/2011	12/31/2013	110(3)	38(26)				148		
(I) Remuneration in the company that draws up the financial statements				4,864	507	2,109	—	382	7,862	674	—
(II) Remuneration from subsidiaries and associates				48(27)					48		
(III) Total				4,912	507	2,109	—	382	7,910	674	

(1) This amount includes the remuneration pursuant to article 2389, paragraph 3, of the Civil Code (367,000 euros) and paragraph 1 (31,000 euros) including other remuneration offsetting the tax burdens applicable to taxed benefits (2,000 euros).

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- (2) This amount refers to the remuneration received as member of the Executive Committee.
- (3) This amount refers to the remuneration received as member of the Board of Directors.
- (4) This amount refers to the remuneration received as member of the Nomination and Remuneration Committee.
- (5) This amount includes the remuneration pursuant to article 2389, paragraph 3, of the Civil Code (1,400,000 euros) and paragraph 1 (110,000 euros) including other remuneration offsetting the tax burdens applicable to taxed benefits (268,000 euros).
- (6) This amount includes the bonus for the financial year for targets achieved during the same financial year, estimated on the basis of the pre-closing statements.
- (7) This amount includes remuneration for employment (922,000 euros) and the transfer allowance pursuant to article 14, paragraph 3, of the collective labour agreement for Company Executives of Companies producing Goods and Services (300,000 euros).
- (8) This amount includes the bonus both for the position of Chief Executive Officer (550,000 euros) for targets achieved during the financial year 2011, and other remuneration offsetting the tax burdens applicable to tax benefits (19,000 euros) relating to employment.
- (9) This amount refers to the remuneration received as member of the Board of Directors for the period 1/1 – 12/31/2011 (110,000 euros) and Vice Chairman appointed to operating the internal control system for the period 4/13 – 12/31/2011 (64,000 euros).
- (10) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee (13,000 euros) and of the Nomination and Remuneration Committee (5,000 euros) for the period 1/1 – 4/12/2011, as well as of the Executive Committee for the period 1/1 – 12/31/2011 (35,000 euros).
- (11) This remuneration is not received by the person concerned but paid to Telefonica S.A..
- (12) This amount refers to the remuneration received as member of the Board of Directors (31,000 euros) and of the Supervisory Board pursuant to Legislative Decree 231/2001 (6,000 euros).
- (13) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee.
- (14) This amount refers to the remuneration receivable as member of the Executive Committee.
- (15) The Director has waived any remuneration for the positions held.
- (16) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee (13,000 euros) and Executive Committee (10,000 euros).
- (17) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee for the period 9/29 – 12/31/2011.
- (18) This amount refers to the remuneration received as member of the Executive Committee (35,000 euros) and of the Nomination and Remuneration Committee (20,000 euros) for the period 1/1 – 12/31/2011, as well as of the Internal Control and Corporate Governance Committee for the period 4/13 – 12/31/2011 (32,000 euros).
- (19) This amount refers to the remuneration received as member of the Board of Directors for the period 1/1 – 12/31/2011 (110,000 euros) and of the Supervisory Board pursuant to Legislative Decree 231/2001 for the period 4/13 – 12/31/2011 (13,000 euros).
- (20) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee for the period 1/1 – 12/31/2011 (45,000 euros) and of the Nomination and Remuneration Committee for the period 4/13 – 12/ 31/2011 (14,000 euros).
- (21) This amount is not received by the person concerned but paid to Intesa SanPaolo S.p.A..
- (22) This amount is not received by the person concerned but paid to Mediobanca S.p.A..
- (23) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee for the period 14/3 – 09/26/2011 (20,000 euros) and of the Nomination and Remuneration Committee for the period 4/13 – 11/16/2011 (12,000 euros).
- (24) This amount refers to the remuneration received as member of the Internal Control and Corporate Governance Committee (32,000 euros) and Executive Committee (25,000 euros) for the period 4/13 – 12/31/2011.
- (25) This amount is not received by the person concerned but paid to Ecotel International S.r.l..
- (26) This amount refers to the remuneration received as member of the Nomination and Remuneration Committee for the period 1/1 – 04/12/2011 (6,000 euros) and of the Internal Control and Corporate Governance Committee for the period 4/13 – 12/31/2011 (32,000 euros).
- (27) This amount refers to the remuneration received by Mr. Gabriele Galateri for the position of member of the Board of Directors of TIM Participações S.A., which he held for the period 05/01 – 12/31/2011, converted into euros at the average exchange rate in 2011, at 12/31/2011 (Reais/€ 2.33).

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Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

The following table have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

													Options expired during the financial year	Options held at the end of the financial year	Options for the year		
A	B	(1)	Options held at the beginning of the financial year			Options assigned during the financial year					Options exercised during the financial year			(14)	(15)	(16)	
			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)				(13)
Name and Surname	Position	Plan and respective resolution	Number of options	Exercise price	Possible exercise period (from-to)	Number of options	Exercise price	Possible exercise period (from-to)	Fair value on assignment date	Date of assignment	Market price of underlying options on assignment of options	Number of options	Exercise price	Market price of underlying shares on exercise date	Number of options	(15)= (2)+(5)-(11)-(14)	Fair value
Gabriele Galateri	Chairman(*)	TOP 2008 15/4/08	2,250,000	1.95	15/4/11											2,250,000	66
Franco Bernabè	Chairman(**)	TOP 2008 15/4/08	6,300,000	1.95	15/4/11											6,300,000	186
(I)	Remuneration in the company that draws up the financial statements		8,550,000													8,550,000	252
(II)	Remuneration from subsidiaries and associates																
(III)	Total		8,550,000													8,550,000	252

(\*) In office until April 12, 2011

(\*\*) In office since April 13, 2011

For further details, please see "Note—Stock option and performance share granting plans of the Telecom Italia Group" of the Notes to the Consolidated Financial Statements, included elsewhere herein.

### 6.6.2 Compensation of Executive Officers

The total compensation due by the Company or by any of the Company's subsidiaries in 2011 to the Company's executive officers (including the Executive Chairman of the Board of Directors and the Domestic CEO) was 15,966 thousand euros.

There is no generalised standard practice regarding severance pay for key managers with strategic responsibilities. However, the general policy established since 2008 is the following:

- at the time of appointment to an executive position, a resource who already has an employment contract with the Group will be subject to the provisions of the collective labour agreement for company executives;
- at the time of engagement of an executive from outside the company, any severance clauses will not normally exceed the maximum amount payable under the collective labour agreement for executives;
- in the event of specific executive staff redundancy campaigns, more generous payments may be made than are required by the collective labour agreement.

There are no general non-competition policies for key managers with strategic responsibilities. For a small number of key managers with strategic responsibilities there is still a duty not to compete with group companies under agreements signed prior to 2008, for which the respective consideration has already been disbursed.

The specific provisions applicable to the current Executive Chairman of the Board of Directors, who has no work relationship with the Company other than his relationships as Executive Director of Telecom Italia, and the current Domestic Managing Director, who is an employee of the Company, are described under 6.6.1 "Compensation of Directors".

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to Executive Officers.



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The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions.

			Financial instruments assigned in previous financial years not vested during the financial year		Financial instruments assigned during the financial year					Financial instruments vested during the financial year and not assigned	Financial instruments vested during the financial year and assigned		Financial instruments for the year
A	B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name and Surname	Position	Plan and respective resolution	Number and type of financial instruments	Vesting Period	Number and type of financial instruments	Fair value on assignment date	Vesting Period	Date of assignment	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value on assignment date	Fair value
Franco Bernabè	Chairman	LTI 2011 7/7/11			3,380,553	939	Apr 2011	Mar 2014 July 7, 2011	0.90459				234
Marco Patuano	CEO	LTI 2011 7/7/11			2,414,681	671	Apr 2011	Mar 2014 July 7, 2011	0.90459				168
Marco Patuano	CEO	PSG 2008 8/8/08								613,200			20
(I) Remuneration in the company that draws up the financial statements					5,795,234	1,610							422
(II) Remuneration from subsidiaries and associates													
(III) Total						1,610							422

### 6.6.3 COMPENSATION OF MEMBERS OF THE BOARD OF AUDITORS

The General Shareholders' Meeting of April 8, 2009 (which appointed the current Board of Auditors) authorized annual compensation of 80,000 euros for each Auditor and 120,000 euros for the Chairman of the Board of Auditors. It also decided to award an additional 15,000 euros to the member of the Board of Auditors appointed to the Supervisory Panel established under Legislative Decree 231/2001 (Ferdinando Superti Furga).

The total compensation paid by the Company or by any of the Telecom Italia Group subsidiaries in 2011 to the members of the Board of Auditors was 498 thousand euros.

The following table sets forth the members of the Board of Auditors in office during 2010 and the compensation received by the Board of Auditors for services rendered during the year ended December 31, 2011:

Individuals		Description of the position		Compensation				
Name	Position held	Period during which position was held	Office expiry	Compensation base	Non cash benefits	Bonuses and other incentives	Other compensations	Total
(thousand of euros)								
Enrico Maria BIGNAMI	Chairman	1/1-12/31/2011	12/31/2011	120	—	—	—	120
Lorenzo POZZA	Acting Auditor	1/1-12/31/2011	12/31/2011	80	—	—	—	80
Gianluca PONZELLINI	Acting Auditor	1/1-12/31/2011	12/31/2011	80	—	—	—	80
Salvatore SPINIELLO	Acting Auditor	1/1-12/31/2011	12/31/2011	80	—	—	—	80
Ferdinando SUPERTI								
FURGA	Acting Auditor	1/1-12/31/2011	12/31/2011	95(1)	—	—	—	95
				455				455
Compensations received by subsidiaries and associated				43(2)				43
Total				498				498

(1) The amount includes remuneration paid as member of the board of statutory auditors (80 thousand euros) and as a member of the Supervisory Panel under Legislative Decree 231/2001 (15 thousand euros).

(2) Remuneration due to Salvatore Spiniello for the position of chairman of the board of statutory auditors in the listed subsidiary Telecom Italia Media S.p.A. from 1/1 to 12/31/2011.

## 6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT

At December 31, 2011, the outstanding stock option plans were related to options which give the right to the subscribe for new Telecom Italia Ordinary Shares and new Tim Participações ordinary shares. In addition, at December 31, 2011 other Telecom Italia S.p.A. equity compensation plans are outstanding.

For further details, see “*Note—Equity compensation plans*” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The main changes between December 31, 2010 and December 31, 2011 in the share-based compensation plans of the Telecom Italia Group are described in this paragraph.

During the course of 2011 the “Performance Share Granting Plan 2008-2011” expired because the performance targets were not met and consequently all the related rights were forfeited.

Under the “Broad-based Employee Share Ownership Plan 2010-2014”, on August 2, 2011, the Telecom Italia share capital was increased as a result of the grant of 8,876,296 bonus ordinary shares to those entitled (subscribers, who retained their shares for one year and maintained an employment relationship with companies of the Telecom Italia Group, received one bonus ordinary share for every three shares subscribed for cash) for a total par value of 4,881,962.80 euros.

The Telecom Italia Shareholders’ Meeting held on April 12, 2011 resolved to launch the “Long Term Incentive Plan 2011”. The new plan replicates the basic rationale of the Long Term Incentive Plan 2010-2015. It covers Executive Management, Top Management and Selected Management. The plan is formulated according to a rolling perspective so that, normally, each year a new incentive cycle comes into effect, factored over the time frame of the company’s strategic planning.

The objective of the plan is to reinforce the connection between management’s compensation and, on one hand, the company performance defined in the business plan 2011-2013 (absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers (relative performance: 65% weighted).

The plan calls for granting:

- to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia Ordinary Shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;
- to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia Ordinary Shares after two years;
- to Executive Management, a bonus in cash and an equivalent number of Telecom Italia Ordinary Shares determined when the person is included in the Executive Management group of the Plan.

On July 7, 2011, the Telecom Italia board of directors approved the start of the Plan. Besides the Executive Chairman and Chief Executive Officer and the Domestic Managing Director and Chief Operating Officer, the Plan covers 17 Top Managers and 128 Selected Management (126 as of December 31, 2011).

During 2011, our subsidiary Tim Participações S.A. issued a stock option plan. On August 5, 2011, the shareholders’ meeting of Tim Participações S.A. approved a long-term incentive plan for managers in key positions in the company and its subsidiaries.

The option to purchase shares was granted to certain directors and employees. On the grant date of August 5, 2011, the exercise price of the options granted was calculated using the weighted average price of the shares of Tim Participações S.A. considering volumes traded and the market price of the company’s shares in the 30 days prior to July 20, 2011 (the date on which the Tim Participações board of directors approved the incentive plan).

The exercise of the options is subordinated to reaching two performance objectives simultaneously: the increase in value of the company’s ordinary shares and the performance of the prices of the company’s shares against a reference index, defined by the directors of Tim Participações S.A. and composed principally of the share price of other companies in the telecommunications, information technology and media sectors.

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Performance targets refer to the three years 2011-2013 and performance is recorded in July of each year. The period of the options is six years, and one-third of these options can be exercised after the first half of 2012, another one-third after the first half of 2013 and the remaining one-third after the first half of 2014. The options are exercisable up to six years starting from the grant date; the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

On August 5, 2011, the grantees of the options were granted the right to purchase a total of 2,833,596 shares.

As of December 31, 2011, there were no options that could have already been exercised.

In 2012, continuing the long term incentive structure defined in 2011, the launch of a new "Long Term Incentive Plan 2012" cycle is proposed by the Board of Directors (extended to Top Management and to the so-called selected executives, excluding Senior Executives), which will be submitted for approval by the Shareholders' Meeting on May 15, 2012.

Item 7. Major Shareholders and Related-Party Transactions	Major Shareholders
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## Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

### 7.1 MAJOR SHAREHOLDERS

At December 31, 2011, according to the shareholders register and other information in the Company's possession, the parties which held shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia were the following:

Major Shareholders	Type of ownership	As of December 31, 2011	
		No. Ordinary Shares	% of ordinary share capital
Telco S.p.A. ....	(direct)	3,003,586,907	22.39
Findim Group S.A. ....	(direct)	668,931,444	4.99

As of May 4, 2012, the above mentioned position is the following:

	Type of ownership	As of May 4, 2012	
		No. Ordinary Shares	% of ordinary share capital
Telco S.p.A. ....	(direct)	3,003,586,907	22.39
Findim Group S.A. ....	(direct)	668,931,444	4.99

At December 31, 2011, Telecom Italia held 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

The companies listed below, in their capacity as asset management companies, disclosed the following information to Consob:

- AllianceBernstein LP disclosed ownership on November 14, 2008 of a total number of 276,847,450 Ordinary Shares, which at December 31, 2011 was equal to 2.06% of Telecom Italia's ordinary share capital;
- Blackrock Inc. disclosed ownership on May 20, 2010 of a total number of 387,081,817 Ordinary Shares, which at December 31, 2011 was equal to 2.89% of Telecom Italia's ordinary share capital.

For more details about the significant changes in the percentage of ownership held by major shareholders organizational structure, please see "Item 4.Information on the Telecom Italia Group—4.1 Business—4.1.1 Background".

#### 7.1.1 SHAREHOLDERS' AGREEMENTS

The information contained herein regarding shareholders' agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

On February 29, 2012 the shareholders of Telco (Generali Group with a 30.58% stake, Intesa Sanpaolo with a 11.62% stake, Mediobanca with a 11.62% stake and Telefónica with a 46.18% stake) terminated the New Shareholders' Agreement (the last version of an agreement initially made on April 28, 2007, and then amended on October 25, 2007, November 19, 2007, October 28, 2009, January 11, 2010 and December 10, 2010), and entered into the 2012 Shareholders' Agreement, on the same terms and conditions as the pre-existing one, with a duration until February 28, 2015.

The 2012 Shareholders' Agreement defines, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia:

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

Item 7. Major Shareholders and Related-Party Transactions	Major Shareholders
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The 2012 Shareholders' Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings that examine proposals and resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions regarding Brazil and Argentina take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (Anatel) and by the Brazilian Antitrust Commission (CADE) and (ii) of the "*Compromiso*" signed before the Comisión Nacional de Defensa de Competencia of Argentina (CNDC) on October 6, 2010 by the contracting parties, by Telco and—as intervening parties in order to execute the obligations assumed—by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Moviles SA.

Consistently with the provisions of the agreement, board members Alierta and Linares undertook at the time of their appointment not to participate in the discussion and voting of the Board of Directors (as well as of the Executive Committee) of Telecom Italia when matters are proposed or discussed that relate to the activities of the Company and its subsidiaries in the telecommunications markets of Brazil and Argentina, as well as, in general, in all cases where there could be possible prejudice to the Telecom Italia Group.

As indicated above, the 2012 Shareholders' Agreement has a duration until February 28, 2015. Each party:

- may request the de-merger of Telco by sending a communication to the other parties between August 1, and August 28, 2014, with an obligation to give effect to the de-merger within the subsequent six months;
- may withdraw from the agreement and request the de-merger of Telco by sending a communication to the other parties in the period between September 1, and September 28, 2013, with an obligation to give effect to the de-merger within the subsequent six months.

At the same time as signing the 2012 Shareholders' Agreement, on February 29, 2012 Telco and Telefónica renewed and extended to February 28, 2015 the option to purchase shares in the Company initially agreed on November 6, 2007 and then amended on October 28, 2009. In accordance with the existing agreements, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

### 7.1.2 SHAREHOLDERS OWNERSHIP

#### ❖ BOARD OF DIRECTORS

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2011 or a part of that year, have held the post of director in Telecom Italia S.p.A.

Name	Company	Class of shares	Number of shares held at the end of 2010 (or at the date of appointment)	Number of shares purchased in 2011	Number of shares sold in 2011	Number of shares held at the end of 2011 (or as of the date on which individual left post, if before)
Franco BERNABÈ .....	Telecom Italia S.p.A.	Ordinary	318,000(1)	—	—	318,000(1)
		Savings	330,000(2)	—	—	330,000(2)
Aldo MINUCCI .....	Telecom Italia S.p.A.	Ordinary	2,595	—	—	2,595
Paolo BARATTA .....	Telecom Italia S.p.A.	Ordinary	172,500(3)	—	—	172,500(3)
Roland BERGER .....	Telecom Italia S.p.A.	Ordinary	562,500	—	212,500	350,000
		Savings	700,000	—	350,000	350,000
Gabriele GALATERI DI GENOLA .....	Telecom Italia S.p.A.	Ordinary	352,000	—	—	352,000
		Savings	176,000	—	—	176,000
Renato PAGLIARO .....	Telecom Italia S.p.A.	Savings	60,000	—	—	60,000
Luigi ZINGALES .....	Telecom Italia S.p.A.	Ordinary	58,000	—	—	58,000

(1) Of which 18,000 shares held indirectly.

Item 7. Major Shareholders and Related-Party Transactions	Major Shareholders
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(2) Of which 30,000 shares held indirectly.

(3) Shares held indirectly.

#### ❖ BOARD OF AUDITORS

At December 31, 2011 no member of the Board of Auditors had investments held in Telecom Italia S.p.A. and its subsidiaries.

#### ❖ EXECUTIVE OFFICERS

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2011 or a part of that year, have held the post of executive officers in Telecom Italia S.p.A.

Company	Class of shares	Number of shares held at the end of 2010 (or at the date of appointment)	Number of shares purchased in 2011	Number of shares sold in 2011	Number of shares held at the end of 2011 (or as of the date on which individual left post, if before)
Telecom Italia S.p.A. ....	Ordinary	92,440	2,190	—	94,630
Telecom Italia S.p.A. ....	Savings	119,584	—	—	119,584
Telecom Italia Media S.p.A. ....	Ordinary	34	—	30	4

\* \* \*

As of May 4, 2012 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

#### 7.1.3 CONTINUING RELATIONSHIP WITH THE ITALIAN TREASURY

The Italian Treasury continues to be in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws. Such powers, the so-called "golden share," were established in 1997 according to Law No. 474/1994, when Telecom Italia—formerly controlled by the Italian Treasury—was privatized.

On May 22, 2003, taking into account the proposed merger of Telecom Italia into Olivetti S.p.A., a Decree by the Minister of Economy and Finance, in agreement with the Minister for Productive Activities, maintained the power of approving the acquisition of major shareholding in the company's voting capital (3% of Telecom Italia's voting share capital or more) and the power of veto over resolutions to dissolve the company, approve mergers, demergers or dispositions of the business, transfer the registered office abroad, change the corporate purposes or amend and modify the special powers. On the other hand, the Treasury's power to approve major shareholders' agreements and the power to appoint one Director and one Statutory Auditor were relinquished.

Law No. 350/2003, adopted in December 2003, significantly modified the rules governing the special powers, of the Italian Government with respect to privatized companies stating, in particular, that the Government no longer has the power to approve or disapprove the acquisition of material interests in the share capital of such companies, but instead may object, within a ten-day period, in case of prejudice to vital State Interests and each time there is the need to protect subsequent undeniable reasons of public interest, in accordance with specific criteria set forth in an ad-hoc decree of the Government dated June 10, 2004.

As a result, on April 1, 2005 a new Decree by the Minister for Economy and Finance, in agreement with the Minister for Productive Activities redefined accordingly the content of the "special powers" clause in the Telecom Italia bylaws, and stated its exact wording. Subsequently the relevant provision of the bylaws was amended accordingly.

Item 7. Major Shareholders and Related-Party Transactions	Major Shareholders
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On March 26, 2009, the European Court of Justice declared that, by adopting the provisions contained in decree of the Government dated June 10, 2004 defining the criteria for the exercise of the special powers, the Italian Republic failed to fulfil its obligations under the EC Treaty. Specifically, infringement of Articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the EC Treaty arose from the fact that the Decree of 2004 did not make sufficiently clear the conditions for the exercise of the special powers, and did not enable investors to know in what situations the powers would be used. The extremely broad description of the circumstances permitting recourse to these special powers gave those powers a discretionary nature. As a result, the above factors discourage investors generally and more specifically those contemplating investing in Italy with a view to exerting some influence on the management of the companies to which the legislation at issue applies.

As a result of the ruling by the European Court of Justice the Prime Minister's Decree dated June 10, 2004 was amended on May 20, 2010. As a result of these amendments, presently the special powers may only be exercised when justified by substantial and compelling reasons of general interest, particularly with regard to public order, security, health and defense, as appropriate and proportionate to the protection of those interests.

On March 15, 2012 the Legislative Decree no. 21/2012 was published, containing "Regulations relating to the special powers on share ownership in the sectors of defence and national security, and regarding activities of strategic importance in the energy, transport and communication sectors". The regulations provide that, at the moment the implementing decrees come into force identifying "*the networks and systems, goods and relationships of strategic importance for the communications [...] sector*", the statutory clauses on special powers will cease to have effect to be replaced by these regulations. In brief, the new regulations will provide:

- a power granted to the Italian Government to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified as above in the Prime Ministerial decree referred to above. The right to purchase will in any case be permitted solely on condition of reciprocity in the purchaser's home jurisdiction;
- a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of said strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee.



Item 7. Major Shareholders and Related-Party Transactions	Related-Party Transactions
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## 7.2 RELATED-PARTY TRANSACTIONS

There are no significant transactions with related parties, including intragroup transactions, which are non recurring or unusual and/or atypical in nature. Such transactions, when not dictated by specific laws, are usually conducted at arm's length.

For further information on related party transactions please see "Note—Related party transactions" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Item 8. Financial Information	Historical Financial Statements
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## Item 8. FINANCIAL INFORMATION

### 8.1 HISTORICAL FINANCIAL STATEMENTS

See “Items 18 and 19” for a list of financial statements and other financial information filed with this report.

Item 8. Financial Information	Legal Proceedings
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## 8.2 LEGAL PROCEEDINGS

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For further details, please see “Note—Contingent liabilities, other information, commitments and guarantees” to the Consolidated Financial Statements included elsewhere in this Annual Report.

Item 9. Listing	Trading Of Telecom Italia Ordinary Shares And Savings Shares
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## Item 9. LISTING

### 9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES

The principal trading market for the Ordinary Shares and the Savings Shares is on Telematico, an automated screen trading system managed by Borsa Italiana (See “—9.2 Securities Trading in Italy”).

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares have been listed on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company’s Depositary issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from the First Quarter of 2007.

	Telematico		NYSE	
	High	Low	High	Low
	(€)		(U.S.\$)	
<b>2007:</b>				
First Quarter .....	2.426	2.108	31.71	27.88
Second Quarter .....	2.430	2.031	32.53	27.01
Third Quarter .....	2.164	1.9	30.59	25.43
Fourth Quarter .....	2.237	2.066	32.83	29.06
<b>2008:</b>				
First Quarter .....	2.143	1.212	31.18	18.82
Second Quarter .....	1.485	1.257	23.54	19.38
Third Quarter .....	1.347	1.05	21.27	14.8
Fourth Quarter .....	1.169	0.759	16.25	9.53
<b>2009:</b>				
First Quarter .....	1.193	0.780	16.54	9.64
Second Quarter .....	1.048	0.920	14.36	11.96
Third Quarter .....	1.253	0.946	18.50	13.13
Fourth Quarter .....	1.218	1.05	17.99	15.15
<b>2010:</b>				
First Quarter .....	1.138	1.019	15.91	13.97
Second Quarter .....	1.134	0.889	15.46	10.50
Third Quarter .....	1.089	0.89	14.08	11.2
Fourth Quarter .....	1.109	0.951	15.61	12.32
<b>2011:</b>				
First Quarter .....	1.144	0.984	15.94	13.13
Second Quarter .....	1.090	0.897	15.65	12.69
Third Quarter .....	0.953	0.728	13.93	10.00
Fourth Quarter .....	0.941	0.768	13.51	10.18
<b>2012:</b>				
January .....	0.870	0.774	11.11	10.17
February .....	0.886	0.772	11.87	10.21
March .....	0.923	0.849	12.3	11.07
April .....	0.892	0.804	11.98	10.43
May (through May 4, 2012) .....	0.850	0.838	11.01	10.97

Source: Reuters data

At the close of business on May 4, 2012 there were 36,083,820 Ordinary Share ADSs outstanding held by 125 registered holders. One of the registered holders is the Depositary Trust Company (“DTC”) which holds 36,074,774 Ordinary Share ADSs on behalf of beneficial holders.

Item 9. Listing	Trading Of Telecom Italia Ordinary Shares And Savings Shares
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The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from the First Quarter of 2007.

	Telematico		NYSE	
	High	Low	High	Low
	(€)		(U.S.\$)	
<b>2007:</b>				
First Quarter .....	2.026	1.812	26.35	23.53
Second Quarter .....	1.987	1.625	26.32	21.42
Third Quarter .....	1.753	1.509	24.35	19.76
Fourth Quarter .....	1.801	1.599	26.41	22.86
<b>2008:</b>				
First Quarter .....	1.609	0.942	23.57	14.75
Second Quarter .....	1.179	1.016	18.52	15.63
Third Quarter .....	1.067	0.803	16.74	11.27
Fourth Quarter .....	0.811	0.552	11.34	6.71
<b>2009:</b>				
First Quarter .....	0.859	0.610	12.04	7.51
Second Quarter .....	0.814	0.633	10.91	8.59
Third Quarter .....	0.875	0.665	12.91	9.25
Fourth Quarter .....	0.861	0.749	12.77	10.78
<b>2010:</b>				
First Quarter .....	0.880	0.762	12.02	10.62
Second Quarter .....	0.900	0.714	12.19	8.49
Third Quarter .....	0.888	0.722	11.43	9.23
Fourth Quarter .....	0.893	0.802	12.59	10.49
<b>2011:</b>				
First Quarter .....	1.014	0.822	14.18	10.83
Second Quarter .....	0.959	0.766	13.76	10.91
Third Quarter .....	0.806	0.667	11.73	9.17
Fourth Quarter .....	0.788	0.656	11.27	8.46
<b>2012:</b>				
January .....	0.731	0.640	9.45	8.51
February .....	0.720	0.634	9.73	8.42
March .....	0.752	0.691	9.93	9.09
April .....	0.744	0.667	9.95	8.64
May (through May 4, 2012) .....	0.699	0.692	9.30	8.85

Source: Reuters data

At the close of business on May 4, 2012, there were 29,509,037 Savings Share ADSs outstanding held by 19 registered holders.

One of the registered holders is the Depository Trust Company ("DTC") which holds 29,502,091 Savings Share ADSs on behalf of beneficial holders.

Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange.

On May 4, 2012 the Noon Buying Rate for the Euro was U.S.\$ 1.3091 = €1.00.

Item 9. Listing	Securities Trading in Italy
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## 9.2 SECURITIES TRADING IN ITALY

Italian equity securities are traded on the regulated electronic stock market Mercato Telematico Azionario or MTA ("**Telematico**"), which operates under the control of the Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange or "**Consob**"), the public authority in charge of regulating the securities markets and all public offerings of securities in Italy in order to ensure the transparency and regularity of trading and protect investors.

Telematico is managed by Borsa Italiana, a joint stock company part of the London Stock Exchange Group, responsible for the organization and management of the Italian stock exchange.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third trading day following the trading date. Borsa Italiana issues a daily official list with certain information on transactions in each listed security, including the volume traded and the high and low prices of the day. No last price is reported, but an "official price" calculated as a weighted average price of all trades performed during the trading day and a "reference price" as for the closing auction price. The Bank of Italy, in accordance with Consob, regulates the governing of the clearing system that is currently performed in Italy on an exclusive basis by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

If in the course of a trading day the maximum price variation between two consecutive contracts is  $\pm 5\%$ , or maximum price variation of the contracts with respect to the reference price is  $\pm 10\%$  an automatic five-minute suspension is declared. Furthermore Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

Starting May 15, 2000, the most liquid shares traded on Telematico, including the Telecom Italia ordinary shares, have been traded on "Mercato After Hours", an automated screen trading system managed by Borsa Italiana. "Mercato After Hours" operates, from 6.00 p.m. to 8.30 p.m., substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalisation, the FTSE MIB Index measures the performance of the 40 most liquid and capitalised Italian shares and seeks to replicate the broad sector weights of the Italian stock market. The index is derived from the universe of stocks trading on Borsa Italiana's Telematico market.

The index is calculated in accordance with the Industry Classification Benchmark ("**ICB**") where main sectors are: Oil & Gas, Constructions & Material, Industrials Goods and Services, Automobiles & Parts, Media, Telecommunications, Utilities, Banks, Technology, Insurance and Personal & Household Goods. Each constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents are reviewed twice a year (March and September), whereas the rebalancing weights are re-calculated quarterly in March, June, September and December. The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).

Item 9. Listing	Clearance And Settlement Of Telecom Italia Shares
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### 9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES

Legislative Decree No. 213 of June 24, 1998 (“**Dematerialization Decree**”) provided for the dematerialization of financial instruments publicly traded on regulated markets including treasury bonds. From July 9, 1998, all companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must settle electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).



## Item 10. ADDITIONAL INFORMATION

### 10.1 CORPORATE GOVERNANCE

#### GENERAL

The Company's corporate governance system is made up of a series of principles, rules and procedures drawn from applicable laws and regulations and from international best practices. The system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. Most of these documents are available in an English language version on the Internet at [www.telecomitalia.com](http://www.telecomitalia.com) under "Governance".

According to applicable Italian law, listed issuers shall annually disclose information on their compliance with codes of conduct issued by regulated stock exchange companies (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations.

#### ❖ CHANGES IN THE REGULATORY FRAMEWORK

Law no. 120 of July 12, 2011, amending articles *147-ter* and 148 of Legislative Decree no. 58 of February 24, 1998, set forth the principle of gender balance in the Board of Directors and Board of Auditors of listed companies. The rule is mandatory for three periods of office from the first subsequent renewal one year after the regulations came into force (in August 2011) and requires that one fifth of the persons appointed in the first period of office, and one third of those appointed for the following two periods of office be reserved for the less represented gender, rounding up fractions to the nearest whole number, as detailed by Consob Resolution no. 18079 of 20 January 2012 (new article *144-undecies* of the Issuer Regulations).

The Shareholders' Meeting to be held on July 15, 2012 will discuss a proposal to amend the Company's bylaws consistently with the aforementioned gender diversity principle.

As already pointed out, the Company complies with the recommendations set forth by the Code of Self Discipline of the Committee for Corporate Governance of Borsa Italiana. Such document was amended in December 2011, with significant changes regarding internal controls, to be implemented by the issuers by the end of 2012. Work is in progress to this end.

#### ❖ CODE OF ETHICS AND CONDUCT

The Code of Ethics and Conduct (the "**Code of Ethics**") of the Telecom Italia Group is central to Telecom Italia Group's system of corporate governance as it spells out the Company's fundamental values and the principles considered necessary to ensure an ethically oriented conduct of business. The Code can be considered as the basis of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. The Code specifies the principles to be respected in relations with all the main stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

As with all of the Company's corporate governance codes and principles, the Code of Ethics is updated in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices.

For further details, please see "Item 16B. Code of Ethics and Conduct".

#### ❖ BOARD OF DIRECTORS

The Company's system of corporate governance is centered around the Board of Directors. The Telecom Italia Self-Regulatory Code supplements the applicable rules concerning the tasks and functioning of the Board of

Item 10. Additional Information	Corporate Governance
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Directors. All the directors are required to comply with the Self-Regulatory Code. The Self-Regulatory Code has been adopted by the Board of Directors as a self-regulatory measure only and can therefore be amended at any time with a resolution adopted by the Board and promptly disclosed to the market.

Since 2005, Telecom Italia's directors have carried out an annual Board performance evaluation.

### ***Role and tasks***

The Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. In particular, as specified in the Self-Regulatory Code, the tasks entrusted to the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification;
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;
- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

The strategic transactions to be submitted to the Board for its prior approval include:

- agreements with competitors of the Group that have an impact on the Group's strategic business choices;
- transactions that entail the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding 250 million euros; transactions that can result in commitments and/or purchase and/or sale transactions of this nature and scale;
- purchase and sale transactions referring to companies or business units that are of strategic significance in the overall framework of the business or exceed 250 million euros; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;
- purchase and sale transactions of controlling or affiliated shareholdings exceeding 250 million euros or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;
- the taking out of loans exceeding 500 million euros and the granting of loans and guarantees in favor of nonsubsidiary companies for amounts exceeding 250 million euros; transactions that can result in commitments and/or transactions of this nature and scale;
- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;
- the listing on (delisting from) European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group; and
- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company's direction and coordination function in relation to the carrying out of transactions which meet the aforementioned criteria.

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Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency.

On November 4, 2010 the Board of Directors introduced the set of procedures currently in force, as per Consob regulation No. 17221 of March 12, 2010, and thus superseded the rules that the Company had voluntarily adopted in 2006. In addition to “related parties”, as defined by Consob and IAS 24, the new procedure (effective as from January 1, 2011) must also be applied—for self-regulatory principles—to participants in shareholders’ agreements that regulate candidacy to the position of Director of Telecom Italia, in the case of a majority slate. The new procedure classifies the transactions in different categories and, according to this classification, different assessment and approval procedures are applied, if these transactions are to be carried out with related parties.

For information on the subject of related-party transactions, see “Item 7. Major Shareholders and Related-Party Transactions—7.2 Related-Party Transactions”.

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Internal Control and Corporate Governance Committee.

As the body primarily responsible for the internal control system, the Board of Directors avails itself of the above-mentioned Committee and:

- the internal audit function, which up to December 31, 2011 was entrusted to the consortium company Telecom Italia Audit & Compliance Services, that as from January 1, 2012 has been merged with and into Telecom Italia; and
- with reference to internal controls over financial reporting, on December 2, 2009 the Board of Directors appointed Andrea Mangoni, as manager responsible for preparing the Company’s financial reports. Following the expiry of his mandate, as a result of the renewal of the Board of Directors, he was reconfirmed in his position at the Board meeting of May 5, 2011. The powers and responsibilities of this position are specified in a special set of rules which are posted in the Governance section of the Company’s website [www.telecomitalia.com](http://www.telecomitalia.com).

The Board of Directors at its meeting on April 13, 2011 charged the Deputy Chairman with responsibility over the internal control system; according to the same logic as inspired the amendments made to the Self-Regulatory Code of Borsa Italiana in December 2011, the Deputy Chairman exercises his role not as such, but in terms of representing the Board of Directors in its entirety towards the various actors in the internal control system. The institution and maintenance of the internal control system are assigned to the Executive directors, each with respect to the area delegated to him or her, and to the manager responsible for preparing the Company’s financial reports for the corresponding area, so as to ensure the overall adequacy of the system and its practical functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board’s proceedings.

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

### ***Meetings***

The Self-Regulatory Code requires the Board to meet periodically (and at least quarterly).

Through May 14, 2012, in 2012 the Board of Directors has had 5 meetings.

When board meetings are to be held, documentation permitting effective participation in the proceedings is provided well in advance, subject to circumstances of the case (as a rule, the Friday preceding the day on which the meeting is to be held, which is normally a Thursday), to enable informed participation in the meetings. When required by the subjects discussed, representatives of the Company management or external consultants are invited to take part, who ensure the necessary technical and professional support.

### ***Appointment of Directors***

As noted above, Telecom Italia's bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders' Meeting through a slate system, which is presently mandatory under Italian law.

The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital (or the different stake annually required to this end by Consob), can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae of the candidates) must be filed at the Company's registered office at least 25 days and made available to the public at least 21 days before the date scheduled for the shareholders' meeting. Consob requires the Company to make the slates and the relevant information available to the public at its registered office, at Borsa Italiana and on its website [www.telecomitalia.com](http://www.telecomitalia.com). According to Telecom Italia's bylaws, slates of candidates can be put forward also by the outgoing Board of Directors. The Board of Directors is elected as follows:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;
- the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be chosen and the results (quotients) obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

An amendment to the Company's bylaws will be proposed to the Shareholders' Meeting to be held on May 15, 2012 to the effect that all slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders' Meeting retains the right to appoint directors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

The shareholders' meeting held on April 12, 2011, established the number of Telecom Italia directors at 15 and appointed the Board for a three-year period. The slate of candidates proposed by Telco S.p.A. obtained the highest number of votes and therefore 12 out of 15 of Telecom Italia's Directors were elected from that slate (Cesar Alierta Izuel, Tarak Ben Ammar, Franco Bernabè, Elio Cosimo Catania, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Micciché, Aldo Minucci, Renato Pagliaro, Marco Patuano and Mauro Sentinelli); the remaining three directors (Luigi Zingales, Ferdinando Falco Beccalli and Francesco Profumo) were elected from the slate proposed by a group of institutional shareholders. See: Risks associated with Telecom Italia's ownership chain under "Item 3. Key Information—3.1 Risk Factors".

With respect to changes to the Board members in 2011, see above "Item 6- Directors, Senior Management and Employees".

### ***Composition***

According to the bylaws, the shareholders' meeting decides the exact number of Board members within a minimum and a maximum number (from 7 to 19). Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for their eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors' qualification. There are no provisions in the Telecom Italia bylaws relating to the retirement of a director under an age limit requirement or a shareholding requirement for director's qualification.

If during the term of the Board of Directors one or more directors cease to hold such position for any reason, the Board of Directors is allowed to appoint replacements by a resolution approved by the Board of Auditors. The

directors so appointed will remain in office until the next Shareholders' Meeting. As a rule, the replacements finally appointed by the Shareholders' Meeting will remain in office for the same term as the other members already in office at the time of their appointments; the Shareholders' Meeting may establish a different term of office for them. In the event of replacement of an independent board member, the Appointment and Remuneration Committee is responsible for proposing a candidate.

Article 5 of the Company's Self-Regulatory Code establishes a cap on the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies. The general rule is that the position of Telecom Italia director is not compatible with directorships or auditorships in more than five companies, other than Telecom Italia subsidiaries or affiliates, when such companies:

- are listed and included in the S&P/MIB index; and/or
- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

The directorship in Telecom Italia is also considered not compatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, such exceptions to be made public. If a Director holds office in more than one company belonging to the same Group, it is standard practice to take into account, when calculating the number of offices, only one office held within that Group.

### ***Impact of Shareholders' Agreements on the Nomination of Telecom Italia Group's Companies Boards***

Telco is Telecom Italia's main shareholder with an interest of 22.39% in the ordinary share capital. In turn Telco is owned by Intesa SanPaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), companies belonging to the Generali Group (30.58%) and Telefónica S.A. (46.18%).

On the basis of information in the public domain, the shareholders of Telco signed an agreement that, among other things, lays down the criteria pursuant to which the board of directors of Telco will approve the list of candidates to be submitted to the shareholders' meeting of Telecom Italia for the appointment of the directors of Telecom Italia. The criteria are set out below:

- Telefónica, to the extent holding at least 30% of Telco's share capital, will have the right vis-à-vis the other shareholders to designate two directors of Telecom Italia: (a) to be included as designees for appointment in the board of Telecom Italia in the list presented by Telco, and (b) to the extent feasible, with respect to the substitution of such directors;
- the other shareholders of Telco, to the extent holding at least 50% plus one share of Telco's share capital, will designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on a proportional basis as set out in the shareholders agreement.

The agreement among Telco shareholders provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently and contains specific provisions to this end. See "Item 7. Major Shareholders and Related-Party Transactions—Item 7.1.1. The Shareholders' Agreements".

### ***Independent Directors***

At least two members of the Board of Directors must satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors. Moreover, Article 5 of the Telecom Italia Self Regulatory Code incorporates by reference the independence criteria set out in the Borsa Italiana's Corporate Governance Code.

To qualify as independent under Borsa Italiana's Corporate Governance Code and the Company's Self-Regulatory Code, Telecom Italia directors should not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders' agreements. Specific presumptions are listed in Borsa Italiana's Corporate Governance Code.

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The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 6, out of the 15 directors are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Telecom Italia's Self-Regulatory Code: Lucia Calvosa, Elio Cosimo Catania, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors.

See "Item 16G. Corporate Governance—16.1. Differences in Telecom Italia's Corporate Governance and New York Stock Exchange Corporate Governance Practices".

### ***Executive Directors and Activities of the Board***

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals—of not more than three months—at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

The Board of Directors entrusted the Executive Directors with the following powers and responsibilities:

- to the Executive Chairman (Franco Bernabè), in addition to legal representation of the Company, as provided for in the bylaws, the following powers:
  - overall governance of the Group, including coordinating the activities of the Chief Executive Officer, and defining the Company's strategic guidelines;
  - responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors;
- to the Domestic Managing Director, in addition to legal representation of the Company, as provided for in the bylaws, the responsibility for the overall governance of operations in Italy.

There are no other Telecom Italia executive directors: specifically, on taking up his office, the Deputy Chairman, who has a proxy in the matter of the operation of the internal control system, stated that said proxy should be understood in terms of mere representation, by means thereof, of the Board of Directors as a whole, consequently excluding the assumption of an executive role. As of May 4, 2012, Telecom Italia's non-executive directors are: Cesar Cesar Alierta Izuel, Tarak Ben Ammar, Lucia Calvosa, Elio Cosimo Catania, Massimo egici, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Micciché, Aldo Minucci, Renato Pagliaro, Mauro Sentinelli, Luigi Zingales.

As a result of the Telco shareholders' agreement providing for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently, Cesar Alierta Izuel and Julio Linares Lopez committed not to take part in any discussion or to vote in matters concerning activities of Telecom Italia or Telecom Italia's subsidiaries in the Brazilian or Argentinean telecommunications markets.

In addition,

- in compliance with the ANATEL Ruling, issued on October 23, 2007 and subsequently on July 7, 2009, in 2007 the Board of Directors of Telecom Italia adopted an ad hoc internal procedure aimed at assuring the segregation of Telecom Italia's activities in Brazil from any potential influence of Telefónica. This procedure was subsequently amended and updated in September 2009 and in January 2012; on April 28, 2010, the board of the Brazilian Antitrust Commission (CADE) approved the acquisition by Telco of an indirect minority shareholding in Telecom Italia in 2007, subject to the simultaneous signing of an agreement, by and between all the Telco shareholders—Mediobanca, Generali, Intesa Sanpaolo and Telefónica—and CADE, which was aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the business carried out in Brazil, preserving competition conditions in that market. Tim Brasil executed such agreement exclusively as an intervening party, on behalf of the Telecom Italia Group since the latter was not formally a party of the antitrust proceedings. As occurred for the measures imposed by Anatel, the undertakings given to CADE were incorporated in a special internal procedure (as per a resolution by the Board of Directors on May 6, 2010), amended in January 2012;



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- as a result of having reached an agreement with the Argentinean authorities, a further procedure was introduced by the Board of Directors of Telecom Italia on November 4, 2010, taking into account the undertakings by the Group toward Argentina's CNDC to obtain approval of the transfer of 8% of Sofora S.A. to Telecom Italia International N.V. These commitments were aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the activities carried out in Argentina. Please see "Item 7. Major Shareholders and Related Party Transactions 7.1.1. The Shareholders' Agreement".

See "Item 7. Major Shareholders and Related-Party Transactions—Item 7.1.1. The Shareholders' Agreements".

### ***Internal Committees***

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. The Self Regulatory Code establishes three Committees: the Executive Committee, the Nomination and Remuneration Committee, the Internal Control and Corporate Governance Committee.

With regard to the composition, while the Executive Committee consists of the Executive Directors (Executive Chairman and Domestic CEO) and of non-executive directors, with the Chairman of the Committee being the Chairman of the Board of Directors, both the Internal Control and Corporate Governance Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent directors, including at least one drawn from a minority list.

### ***Executive Committee***

The Executive Committee was established on April, 15, 2008 and is composed of the Executive Directors (who coordinate the Committee's activity with the management) and non-executive directors. The Committee's Chair is entrusted to the Chairman of the Board of Directors.

As per Telecom Italia's Self Regulatory Code the Committee is charged with monitoring the performance of operations at Company and Group level, approving the executive directors' proposals for macro organizational arrangements, submitting opinions to the Board on the budget and the strategic, business and financial plans of the Company and the Group and performing any other tasks delegated by the Board of Directors.

### ***Internal Control and Corporate Governance Committee***

The Committee assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company's financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements.

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their updating;
- expresses its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- defines the procedures and time limit for conducting the "board performance evaluation"; and
- performs the additional tasks that may be assigned to it by the board of directors.

### ***Nomination and Remuneration Committee***

The Committee is charged with putting forward proposals for the remuneration of the directors who hold particular offices, division of the overall amount set forth by the Shareholders' Meeting as the annual remuneration for the Board as a whole and criteria for the remuneration of the Company's senior management and with the nomination of candidates for the Board of Directors in the event of replacement of an independent board member.



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For more information concerning the remuneration of directors and top management see “Item 6. Directors, Senior Management and Employees—6.6 Compensation of Directors, Officers and Members of the Board of Auditors”.

### ***Internal Control System***

The internal control system is a set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the main risks, allows the sound and fair operation of the company in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, which are considered key factors for managing Telecom Italia’s business, in compliance with the Code of Conduct and Ethics of the Group and the Company’s Self-regulatory Code. This process, constantly monitored with a view to progressive improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control system, sets the guidelines, verifying its adequacy, effectiveness and proper functioning, so that the main company risks (operational, compliance-related, economic and financial) are properly identified and managed over time.

In the exercise of its responsibility for the internal control system the Board avails benefits from the activities of the Committee for internal control and corporate governance, but also of a Manager who is given an adequate level of independence and suitable means for performing his function. The Manager supports the Board in assessing the adequacy and effectiveness of the control system, and consequently proposes corrective measures in case of irregularities, deficiencies and malfunctions.

In particular the Internal Control Manager:

- reports on his work to the Director delegated for this purpose, to the Committee for Internal Control and Corporate Governance and to the Board of Auditors. In particular, he reports on how risk is managed, as well as on compliance with established plans for risk mitigation, and expresses his assessment on the suitability of the internal control system for achieving an acceptable overall risk profile;
- he carries out checks, including at the request of the executive responsible for preparing the Company accounting documents;
- he has a role in ensuring respect for the principles and values expressed in the Code of Conduct and Ethics, by handling reports from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code of Conduct and Ethics, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

The oversight role of the internal control Manager is directed towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the (qualitative/quantitative) risk factors present and the probability of their affecting the achievement of those objectives.

Up until December 31, 2011 the role of internal control manager was assigned to Telecom Italia Audit & Compliance Services S.c.a r.l., whose shareholders were Telecom Italia itself and Telecom Italia Media, with shareholdings respectively of 81.82% and 18.18%. In August 2011, the boards of directors of Telecom Italia and the consortium company approved a merger plan for the merger of the consortium company into Telecom Italia, consistently with a logic of concentrating activities and expertise in the matter of internal controls in the parent company. The merger process was finalized and took effect as of January 1, 2012.

As from 2005 the Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group’s internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system.

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As regards internal controls over financial reporting, the Company has drawn on the substantial work done in order to comply with US reporting requirements to fulfill the transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance.

The Company's internal control system is completed by the so-called 231 Organizational Model, which provides a model of organization and management adopted pursuant to Italian Legislative Decree No. 231/2001, and is aimed at preventing offences that can result in liability for the Company.

The 231 Organizational Model is subject to ongoing upgrading. Some revisions are made necessary by changes in the law, while others are proposed when deemed appropriate in the light of the results of the model's application. Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Ferdinando Superti Furga, Chairman), an independent director on the Internal Control and Corporate Governance Committee (Paolo Baratta), the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services and, from November 2009, an external member (presently, Professor Vincenzo Salafia). The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

In addition, a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

In convening the Shareholders' Meeting to be held on May 15, 2012, which will resolve—among other things—on the appointment of the Board of Statutory Auditors for the three-year term 2012-2014, the Board of Directors pointed out that it is in favour of making use of the opportunity offered by law no. 183 of November 12, 2011 for the Board of Auditors to act as Supervisory Panel on the 231 Organizational Model, to the effect that such a responsibility will be granted to the newly-appointed Statutory Auditors.

## ❖ Board of Auditors

### *Tasks and role*

The Board of Auditors verifies compliance with of the law and the Bylaws and verifies adherence to the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors about the company's business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform the Consob of any irregularity they detect in the course of their duties and are required to attend Shareholders' Meetings, Board of Directors meetings and Executive Committee meetings.

In addition to that, law no. 183 of November 12, 2011 allows the Board of Auditors to act as Supervisory Panel on the 231 Organizational Model, and the Board of Directors already made clear it intends to make use of this opportunity.

In 2011 the Board of Auditors met 34 times; 5 times jointly with the Internal Control and Corporate Governance Committee. In addition, its members participated in the meetings of the Board of Directors and the Executive Committee and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

### *Appointment*

Telecom Italia's Board of Auditors is composed of five regular auditors, and four alternate auditors. The Board of Auditors is appointed by the Shareholders' Meeting through the slate system under the same procedure used for the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called "majority slate" (that is a slate that obtained the majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called "minority slates".

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An amendment to the Company's bylaws will be proposed to the Shareholders' Meeting to be held on May 15, 2012 to the effect that all slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders' Meeting retains the right to appoint auditors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

Pursuant to applicable Italian law, the Chairman of the Board of Auditors is appointed by the shareholders' meeting from among the auditors elected from a "minority slate".

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

The present Board of Auditors was elected, for a three year term, by the shareholders meeting of April 8, 2009, on the basis of three slates presented respectively by Telco (presently Telecom Italia's largest shareholder), Findim (presently Telecom Italia's second largest shareholder) and by a group of minority shareholders. Salvatore Spiniello, Ferdinando Superti Furga and Gianluca Ponzellini were elected from the "majority slate", while Enrico Maria Bignami and Lorenzo Pozza were elected from the "minority slates". Enrico Maria Bignami was also appointed as Chairman of the Board.

### ***Audit Committee***

As described above, the Board of Auditors plays a key role in the Company's system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as Telecom Italia's Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and Telecom Italia's Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;
- the Board of Auditors is not elected by the management of the Company and no executive officer is a member of the Board of Auditors;
- all of the members of the Board of Auditors meet specific independence requirements from the Company and its Group, the management and the auditing firm, as set forth by Italian legal provisions;
- the Board of Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposal to the shareholders' meeting) and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements;
- the Board of Auditors is authorized to engage independent counsel and other advisers, as it deems appropriate; and
- the Board of Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian law and the obligations deriving from US law, the Board of Auditors adopted a complaints procedure for receiving, retaining and treating the "reports" it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;
- complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;

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- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and
- confidential, possibly anonymous submissions of “concerns” by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company’s website under “Governance”.

## ❖ Shareholders’ Meetings

### *Meetings of Ordinary Shareholders*

Holders of Ordinary Shares are entitled to attend and vote at ordinary and extraordinary shareholders’ meetings. At any Shareholders’ Meeting, each holder is entitled to cast one vote for each Ordinary Share held. Votes may be cast personally or by proxy. According to the bylaws, the issuer may designate, for each Shareholders’ Meeting, one or more representatives on whom those entitled to vote may confer a proxy free of charge. The person so designated, and the necessary operating instructions, shall be stated in the notice calling the meeting. Holders of Ordinary Shares can also vote by mail or, if so specified in the notice of the specific meeting and in the ways specified therein.

Shareholders’ Meetings are called by the Company’s Board of Directors when required by law or the shareholders or deemed necessary.

Shareholders’ Meetings must be convened at least once a year. At these ordinary meetings, holders of Ordinary Shares (i) approve the annual accounts, (ii) appoint/revoke directors and auditors and determine their remuneration, when necessary, (iii) vote on other issues defined in the Bylaws, if any, (iv) authorize the completion of the transactions by the directors, if and when the Bylaws call for such previous authorization, it being understood that directors remain directly responsible for the transactions accomplished, and (v) adopt rules of procedure for the shareholders’ meetings (Meeting Regulations).

Presently Telecom Italia’s Bylaws grant the ordinary Shareholders’ Meeting the power to authorise the execution of transactions with parties related to the Company, as per the specific procedure governing related-party transactions adopted by the Board of Directors on November 4, 2010. More specifically, with respect to transactions of major importance, this procedure requires the approval by the Board of Directors, subject to the prior approval of a Committee comprised of all the independent directors. In case this Committee gives a negative opinion on interest and conditions of a transaction of major importance, and this opinion is not superseded through a so called double majority at the meeting of the Board (a “general” majority, of all the Directors at the meeting, and a “specific” one, of Independent Directors in non-related positions), in order to be carried out the transaction of major importance, even if authorized by the Board, must be authorized by the shareholders’ meeting. There it must obtain the favourable vote of the majority of the non-related shareholders entitled to vote.

It is compulsory for issuers to publish their annual report within 120 days of the close of their fiscal year; if the bylaws so provide (and this is the case in Telecom Italia), the approval by the annual general meeting can follow, but in any event the annual general meeting must take place no later than 180 days after the end of the fiscal year.

Extraordinary Shareholders’ Meetings may be called to pass upon proposed amendments to the Bylaws, capital increases, mergers, dissolutions, issuance of convertible debentures (which can also be delegated to the Board of Directors), appointment of receivers and similar extraordinary actions.

As a rule shareholders are informed of all Shareholders’ Meetings to be held by publication of a notice at least 30 days (40 days in case of Shareholders’ Meetings convened to appoint corporate bodies) before the date fixed for the meeting. The notice must be published in at least one national daily newspaper, posted in the issuer’s internet site and filed with the Italian Stock Exchange and Consob. The notice of a Shareholders’ Meeting may specify up to two meeting dates for an ordinary Shareholders’ Meeting and up to three meeting dates for an extraordinary Shareholders’ Meeting (“calls”). Telecom Italia’s bylaws allow the Shareholders’ Meeting to be called in a single call, and—when this is the case—the quorums of second calls of ordinary Shareholders’ Meeting and second calls of extraordinary Shareholders’ Meeting, as the case may be, apply.

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An ordinary Shareholders' Meeting is duly constituted on first call with the attendance of at least 50% of the outstanding Ordinary Shares, while on second call there is no quorum requirement. In either case, resolutions are approved by holders of the majority of the Ordinary Shares represented at the meeting.

Extraordinary Shareholders' Meetings are duly constituted with the attendance of shareholders representing at least one-half or more than one-third or at least one-fifth of the company's ordinary share capital, on the first call, second call and third call, respectively. The favorable vote of at least two-thirds of the Ordinary Shares represented at the meeting is necessary for the resolution approval. Resolutions concerning capital increases with the exclusion or limitation of subscription rights must always be approved by holders of more than 50% of the shares outstanding, irrespective of the call in which the resolution is taken.

To attend and vote at any Shareholders' Meeting, holding of shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that an ad hoc communication by the authorized intermediary must have been received by the Company.

Special arrangements with the Depository may be required for the beneficial owner of ADRs representing ADSs to attend Shareholders' Meetings and exercise voting rights with respect to underlying Ordinary Shares. See "—10.5 Description of American Depositary Receipts—Voting of Deposited Securities".

Votes cast in the Shareholders' Meeting are open, as the minutes of the meeting are required to evidence how attending shareholders voted.

Shareholders may attend the meeting by proxy using a power of attorney. There is no limit to the number of shareholders any one proxy can represent. A proxy may be appointed only for one single meeting (including, however, the first, second and—in case of extraordinary meetings—third call) and may be substituted by the person expressly indicated in the form or, if the proxy is so authorized, by the substitute the proxy appoints.

Votes by proxy may be solicited and collected for the shareholders' meetings of listed companies. Proxy solicitation provisions allow individuals (and even the issuer), to promote the soliciting of votes by proxy at shareholders' meetings. There is no ownership requirement to this end. Proxy solicitation is subject to specific rules and disclosure requirements set forth by Consob.

In addition to that, shareholders associations composed of at least 50 people, each with no more than 0.1% voting share capital, may collect proxies among their group, without any specific disclosure requirement. In order to facilitate such operation among employee shareholders, the Bylaws provides that special measures will be made available to such shareholders associations in order to facilitate dissemination of information about solicitation and proxy collection operations.

Ordinary Shareholders may also vote by mail. The "vote by mail" cannot be cast by proxy. The system is essentially based on the following principles: (a) the notice calling the shareholders' meetings must specify that shareholders can vote by mail and must describe the procedures they have to follow; (b) shareholders wishing to vote by mail (to be duly entitled to vote through timely communication to the issuer, as described above) must send the company a special form (so called ballot) made available for such purpose by the issuer, which has to comply with specific Consob requirements; (c) votes cast by mail must be delivered to the company at least on the day before the Shareholders' Meeting takes place; and, finally, (d) votes cast by mail remain valid for the second and third calls of the meeting and can be revoked by a written declaration until the day before the meeting, or directly in the meeting through an ad-hoc statement by the interested party.

The issuer's by-laws can admit attendance to Shareholders' Meeting via electronic means. According to an amendment passed on April 12, 2011 the Company's bylaws provide that, if the notice of the meeting specifies it and in the ways described therein, Ordinary Shareholders may also vote electronically, in advance of the meeting.

The shareholders' meetings shall be called when requested by shareholders representing at least 10% of a company's share capital. In the case the directors or in their place the statutory auditors don't call the Shareholders Meeting, the Court orders with a decree the call of the Shareholders Meeting, after having heard the directors and statutory auditors, if the refusal is unjustified. Shareholders are not allowed to present requests on topics upon which the Shareholders Meeting resolves, pursuant to Italian law, on directors' proposal or on a project basis or on their reports only.

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Shareholders representing at least 2.5% of the share capital may request, within ten days of the publication of the notice convening the meeting, additions to the agenda, specifying in the request the additional items they propose. Additions to the agenda may not be made for matters on which the shareholders' meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report by the Board of Directors. Notice of items added to the agenda following requests by shareholders, as above, shall be given in the same forms prescribed for the publication of the notice convening the meeting.

The Shareholders' Meeting on May 6, 2004 adopted a set of Rules of Proceeding, which apply to both Ordinary and Extraordinary meetings, which were amended by the shareholders' Meeting of April 12, 2011. The current version of the Rules is posted on the Company's website under "Governance".

### ***Meetings of Savings Shareholders***

Although holders of Savings Shares are not entitled to vote in meetings of holders of Ordinary Shares, they are entitled to attend special meetings of holders of Savings Shares ("**Special Meetings**") and to appoint a joint representative (the "**Joint Representative**") to represent them, with respect to the Company.

The Joint Representative, who is appointed by the Special Meeting or, in default, by the Court, is entitled (i) to inspect certain corporate books of the Company, (ii) to attend the Shareholders' Meetings and (iii) to challenge in court the resolutions adopted by such meetings. The Joint Representative is appointed for a maximum three-year term and, according to the Bylaws, is kept informed by the Company regarding corporate events that can affect the price trend of Savings Shares. The Savings Shareholders Meeting held on May 28, 2010 appointed Mr. Emanuele Rimi as joint Representative for a three year period which will expire with the Ordinary Shareholders' Meeting to be convened for approval of the Company's financial statements for the year 2012.

Special Meetings of Savings Shareholders may be called when deemed necessary or upon request by Savings Shareholders representing at least 1% of the outstanding Savings Shares either by the Joint Representative or by the Company's Board of Directors in order to (a) appoint and revoke the Joint Representative, (b) approve the resolutions of the Shareholders' Meetings that may affect the rights of Savings Shares, (c) set up an expense fund for the coverage of costs incurred in protecting rights of the Savings Shareholders, (d) negotiate possible disputes with the Company; and (e) resolve other issues relating to their position as holders of Savings Shares. To adopt resolutions related to (a), (c) and (e) above, a favorable vote of at least 20% of the Savings Shares is required at Special Meetings held on the first call, a favorable vote of at least 10% is required at Special Meetings held on the second call, and a favorable vote of at least a majority of the Savings Shares present is required at Special Meetings held on the third call. To adopt resolutions related to (b) and (d) above, a favorable vote of at least 20% of the Savings Shares is required at all calls of the Special Meetings.

To attend an vote at any Special Meeting, holding of Savings Shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that, an ad hoc communication by an authorized intermediary must have been received by the Company. Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing Savings Share ADSs to attend Special Meetings and exercise voting rights with respect to underlying Savings Shares. See "—10.5 Description of American Depositary Receipts—Voting of Deposited Securities".

### **❖ Disclosure**

Transparent relations with the financial markets, and the provision of accurate information are paramount for the Telecom Italia Group.

A specific procedure (posted on the Company's website under "Governance") covers the handling—including the public disclosure—of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments, and is addressed to all the members of the governing bodies, employees and outside consultants of Group companies who have potential access to inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements.

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With reference to the preparation of the financial statements for 2011, the procedures for the Preparation of the Telecom Italia 2011 annual report for Italian purposes and Telecom Italia 2011 Form 20-F provide for specific mechanisms of upward attestation by the people in charge of the various corporate structures involved in the process of gathering and handling data and drafting the document. This is aimed at giving adequate assurance and support to the senior officers, the Board of Auditors, the Internal control and Corporate Governance Committee and the Board of Directors as a whole in fulfilling their responsibility for oversight of the accuracy and timeliness of required disclosures.



## 10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

### Foreign Investment and Exchange Control Regulations in Italy

There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities and may export cash, instruments of credit and securities, in both foreign currency and euro, representing interest, dividends, other asset distributions and the proceeds of dispositions without restriction other than those outlined below. There are no limitations on the right of non-resident or foreign beneficial owners to vote their Shares except as provided for all Telecom Italia shareholders by law. See “—10.4 Description of Capital Stock—Limitations on Voting and Shareholdings”.

Regulations concerning updated reporting, record-keeping and restrictions on the use of, among other things, cash and bearer instruments are to be found in legislative decree no. 231 dated November 21, 2007, as amended and supplemented from time to time (“**decree 231/2007**”), which implemented in Italy the Anti-Money Laundering Directives nos. 2005/60/CE and 2006/70/CE.

Article 49 of decree 231/2007 provides that the transfer of cash, bearer bank or postal passbooks and bearer instruments in Euro or foreign currency, effected for any reason between different parties (resident or non-resident) (a “**Transfer**”), is forbidden when the total amount is equal to or greater than 1,000 euros. A Transfer is also forbidden when carried out through multiple payments—each lower than the 1,000 euros threshold—that appear designed to circumvent such prohibition. A Transfer may only be executed through banks, electronic money institutions and “Poste Italiane S.p.A.” (Italian Mail) (collectively, the “**Authorized Operators**”). Within 30 days of their knowledge, the Authorized Operators must promptly notify the Ministry of Finance of any breach of the provisions set out in article 49 of decree 231/2007. The Ministry of Finance, in turn, must immediately notify the Italian Revenue Agency of the abovementioned breaches, so as to allow the Italian Tax Agency to carry out proper tax investigations.

In addition, when the total amount of a Transfer is equal to or greater than 15,000 euros, the Authorized Operators are required to (i) duly identify the customer and the beneficial owner (if any) on the basis of documents, data or information deriving from an independent and reliable source, (ii) set up a “Data Processing Archive” (“**Archivio Unico Informatico**”) which contains a copy of any document required for the customer’s and beneficial owner’s identification, (iii) notify the Financial Intelligence Unit (“**Unità di Informazione Finanziaria**”) of the Bank of Italy of any suspicious operation, where possible, before carrying out the Transfer and (iv) keep record of the information under point (i) above for ten years following the Transfer. The breach of such provisions under decree 231/2007 may trigger criminal and administrative sanctions: criminal sanctions are imposed for offenses such as breach of customer identification obligations and recording duties and breach of the requirement to disclose the fact that a suspicious transaction was reported; administrative sanctions are imposed for offenses such as failure to set up the Data Processing Archive and to report the suspicious transactions to the Financial Intelligence Unit.

The Financial Intelligence Unit keeps records of all reports (including those without merit), for ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Certain additional procedural requirements are imposed for tax reasons. Non-corporate residents of Italy effecting transfers to and from Italy in excess of 10,000 euros in one year must disclose them in their annual income tax returns. Non-corporate residents must also give details in their income tax returns of financial assets held outside Italy at the end of the fiscal year and of transfers in excess of 10,000 euros to, from, within and between foreign countries in connection with such assets during the fiscal year. No tax return is required in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy. Such disclosure requirements do not apply (i) if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than 10,000 euros or (ii) in respect of foreign investments, foreign assets or transfers within the EU (except for transfer from or to Italy). For corporate residents there is no requirement for such a declaration because their financial statements (on the basis of which their tax returns are prepared) already contain the information.

There can be no assurance that the present regulatory environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

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### 10.3 DESCRIPTION OF BYLAWS

#### *Object*

Telecom Italia's corporate purpose is described in Article 3 of the Bylaws and consists of:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating telecommunications services and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

#### *Directors*

There are no provisions in the Bylaws relating to: (1) the power of a director to vote on a proposal in which such director is materially interested, (2) the power of a director to (in the absence of an independent quorum) vote compensation to himself or any member of its body, (3) the power of a director to borrow money from the Company, (4) the retirement of a director under an age limit requirement and (5) the number of shares required for director's qualification.

The Board of Directors grants specific positions to any of its members in compliance with the Bylaws of the company; such positions include, among others, those of Chairman and Managing Director. According to Italian law the remuneration corresponding to such positions is then defined by the Board of Directors in its discretion, after acknowledging the opinion of the Board of Auditors.

There are no provisions in Italian law that govern the issue of directors borrowing money from the company and that set age or shareholding requirements for director's qualification.

#### *Recent amendments*

The shareholders' meeting held on April 12, 2011 resolved upon a number of amendments aimed at adapting the bylaws to the regulations introduced with the implementation of the so-called Shareholders' Rights Directive into Italian law (legislative decree no. 27/2010), and to legislative decree no. 39/2010 on the legal auditing of company accounts (thus completing the work done directly by the Board of Directors on September 30, 2010). Such amendments were described in the Form 20-F for the year 2010.

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#### 10.4 DESCRIPTION OF CAPITAL STOCK

As of May 4, 2012, the subscribed and fully paid-up capital stock was equal to 10,693,628,019.25 euros divided into 13,416,839,374 Ordinary Shares and 6,026,120,661 Savings Shares, each with a par value of 0.55 euros.

For five years starting from April 29, 2010 the Directors may increase the share capital as follows:

- to service the implementation of the “2010-2015 Long-Term Incentive Plan,” (i) by the issuance for cash of new ordinary shares with a par value of Euro 0.55 each, ranking *pari passu*, in the maximum amount of 5,000,000 euros, excluding the right of pre-emption pursuant to Art. 2441, paragraph 8, of the Civil Code, and Art. 134, paragraph 2, of Legislative Decree no. 58/1998, to be reserved for the respective beneficiaries, and therefore subsequently (ii) in the maximum amount of 5,000,000 euros by the allotment of the corresponding maximum amount of profits pursuant to Art. 2349 of the Civil Code, by the issuance of the number of ordinary shares with a par value of Euro 0.55 each necessary for the allotment of one bonus share for every share subscribed for cash as described above by employee beneficiaries of the “2010-2015 Long-Term Incentive Plan,” within the time periods and under the terms and conditions provided for therein.

With respect to the capital increase for cash, the Board of Directors shall set subscription price (including any premium) in accordance with the “2010-2015 Long-Term Incentive Plan,” respectively, and it shall also set suitable time limits for its subscription, providing that if the increase resolved is not fully subscribed within that time limits, the capital will be increased by an amount equal to the subscriptions received up to such time.

For five years starting from April 12, 2011 the Directors may increase the share capital to service the “Long Term Incentive Plan 2011” as follows, as approved by the Company Shareholders’ Meeting of that date:

- (i) for cash, by the issue of new ordinary shares of Euro 0.55 par value each, with regular dividend entitlement, up to a maximum amount of 5,000,000 euros, excluding the right of pre-emption pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the “Long Term Incentive Plan 2011” as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of 5,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the “Long Term Incentive Plan 2011”;
- up to a maximum amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, with the issue of ordinary shares reserved to some of the employees who are beneficiaries of the “Long Term Incentive Plan 2011” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “Long Term Incentive Plan 2011”.

Regarding the increase in capital for cash, the Board of Directors shall establish the share issue price (inclusive of the share premium) in accordance with the provisions of the “Long Term Incentive Plan 2011”, and shall also set the period of time within which they may be subscribed, providing that, if the resolved increase should not be fully subscribed within said period of time, the share capital shall be understood to have been increased by an amount equal to the subscriptions received up until that date.

For five years starting from April 8, 2009 the Directors may increase the share capital in one or more tranches by up to a maximum total amount of 880,000,000 euros by means of cash issues, with or without a share premium, of up to a maximum of 1,600,000,000 ordinary shares with a par value of €0.55 each

- (i) to be offered with the right of pre-emption to persons having entitlement; or, including just a part thereof,
- (ii) to employees of Telecom Italia S.p.A. and its subsidiaries with the exclusion of the right of pre-emption pursuant to the combined effects of the last paragraph of Article 2441 of the Civil Code and Article 134(2) of Legislative Decree 58/1998.

Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.

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The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from April 8, 2009, bonds convertible into ordinary shares to be offered with the right of pre-emption to persons having entitlement up to a maximum nominal amount of 1,000,000,000 euros.

In connection with a new 2012 long-term incentive plan, for the part of it which will be reserved to employees, the Shareholders' Meeting to be held on May 15, 2012 will be asked to authorize the Board of Directors—by amending Article 5 of the Bylaws—to increase the Company's share capital:

### ***Classes of shares***

According to Italian law, Savings Shares may not be issued for an amount which, including other preferred shares, if any, exceeds one-half of the Company's share capital.

Pursuant to Telecom Italia's Bylaws any reduction in share capital made for the purpose of absorbing losses is applied to the par value of the Ordinary Shares until they have been reduced to zero and only then is the par value of the Savings Shares reduced. If, as a consequence of capital reduction, the Savings Shares exceed half of the Company's share capital, such excess must be eliminated within the following two years.

### ***Form and Transfer***

The Dematerialization Decree provides for the dematerialization of financial instruments publicly traded on regulated markets, including treasury bonds.

As a result, Ordinary Shares and Savings Shares must be held with Monte Titoli. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli, and beneficial owners of Ordinary Shares and Savings Shares may hold their interests through special deposit accounts with any such participant. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their Ordinary Shares, collect dividends and exercise other rights with respect to those shares through such accounts. Such shares held by Monte Titoli are transferred between beneficial owners by appropriate instructions being given to the relevant participants associated with Monte Titoli to debit the account with the bank of the vendor and to credit the account with the bank of the purchaser.

Voting rights relating to Ordinary Shares and Savings Shares that have not been deposited with Monte Titoli may be exercised only by depositing them with an authorized intermediary. The Company may act as an intermediary for its own shares.

Each person owning a beneficial interest in Ordinary Shares and Savings Shares held through Euroclear or Clearstream must rely on the procedures of Euroclear or Clearstream, respectively, and of institutions that have accounts with Euroclear or Clearstream to exercise any rights of a holder of shares. Holders may request Euroclear or Clearstream to transfer their Ordinary Shares and Savings Shares to an account of such holder with a participant of Monte Titoli, in which case such holders may transfer their shares, collect dividends and exercise other shareholder rights through that participant. Any such transfer through that participant is not subject to Italian transfer tax if non-Italian parties are involved. See "—10.6 Taxation".

### ***Dividend Rights***

Holders of Savings Shares are entitled each year to a distribution with respect to such year's net income in the amount up to 5% of the par value of their shares. If with respect to any year a lesser amount is paid, the entitlement to payment of the shortfall is carried over for two successive years. In the event that dividends are paid to holders of Ordinary Shares, holders of Savings Shares have a preferential right to receive a dividend per share that is higher by 2% of its par value than the dividend per Ordinary Share.

In case the net income is insufficient, the Annual Ordinary Shareholders' meeting is allowed to satisfy the aforementioned preferential rights by distributing reserves, when available.

### ***Subscription Rights***

New Ordinary Shares and/or Savings Shares may be issued pursuant to a resolution of holders of Ordinary Shares at any extraordinary Shareholders' Meeting.

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Pursuant to Italian law, shareholders (including holders of Savings Shares) are entitled to subscribe for new issues of Ordinary Shares and/or Savings Shares, debentures convertible into Ordinary Shares and/or Savings Shares and rights to subscribe for Ordinary Shares and/or Savings Shares in proportion to their respective shareholdings.

As a rule, subject to certain conditions principally designed to prevent dilution of the rights of shareholders, subscription rights may be waived or limited by resolutions taken by an extraordinary Shareholders' Meeting with the affirmative vote of holders of more than 50% of the Ordinary Shares outstanding. This majority is required at the first, second and third call (or at the only call, if the bylaws of the issuer allows it). On the other hand, according to the Bylaws the subscription rights can be excluded by the extraordinary Shareholders' Meeting in the amount of 10% of the pre-existent share capital with no special quorum requirement, on condition that the subscription price is equal to the shares market price and this is confirmed in the proper independent auditors' report.

Shareholders can adopt a resolution, at an extraordinary Shareholders' Meeting, to convert available reserves into additional share capital. In such case, either the par value of all outstanding shares is identically raised or the shares resulting from the increase in share capital are allocated to the shareholders in proportion to their ownership before the increase without further contribution or payment from the shareholder.

### ***Liquidation Rights***

Subject to the satisfaction of all other creditors, holders of Ordinary Shares are entitled to a distribution in liquidation.

Holders of Savings Shares and preferred shares, if any, are entitled to a preferred right to distribution from liquidation up to their par value. No liquidation dividend is payable to the holders of other classes of shares until such preferential right has been satisfied in full. Thereafter, in case of surplus assets, holders of all classes of shares rank equally in the distribution of such surplus assets. Shares rank *pari passu* among themselves in a liquidation.

### ***Purchase of Ordinary Shares or Savings Shares by the Company***

The Company may purchase its own Ordinary Shares or Savings Shares subject to certain conditions and limitations. Such purchases must be authorized by a Shareholders' Meeting and made only out of retained earnings or distributable reserves as shown on the most recent financial statements approved by the Shareholders' Meeting. The par value of the Ordinary Shares or Savings Shares purchased by the Company, including the Ordinary Shares or Savings Shares, if any, held by the Company's subsidiaries, may not exceed 10% of the Company's share capital. The Company may purchase its own Ordinary Shares or Savings Shares:

- by means of a tender offer;
- on regulated markets in accordance with trading methods laid down in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;
- by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules lay down methods for the purchase and sale of such instruments that (i) do not permit the direct matching of buy orders with predetermined sell orders and (ii) ensure the easy participation of investors in the trading of such derivative instruments used for buybacks;
- by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders' meeting authorizing the share purchase programme.

Before entering into transactions aimed at the purchase of its own shares other than by means of a tender offer (which in Italy is governed by specific disclosure requirements), the Company must disclose to the public all the details of the share purchase programme.

Ordinary Shares or Savings Shares purchased and held by the Company or one of its subsidiaries may be disposed of only pursuant to a resolution of the Company's or, if applicable, its subsidiary's shareholders' meeting.

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As a rule, neither the Company nor any company under its control may vote or subscribe for new Ordinary Shares or Savings Shares of the Company, but the shareholders' meeting may authorize the exercise of subscription rights. If no such authorization is granted, the subscription rights accrue to the other holders so long as such Ordinary Shares or Savings Shares are held by the Company or a company under its control. The Ordinary Shares or the Savings Shares, as long as they are owned by the Company, are not entitled to receive dividends.

As of May 4, 2012, Telecom Italia owns 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. holds another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

The Shareholders' Meeting held on April 12, 2011 authorized the Board of Directors for a period of 18 months to purchase, in one or more tranches and at any time, savings shares of Telecom Italia S.p.A., within the quantitative limits laid down by law and in any event within a maximum expenditure limit of Euro 800,000,000. The purchases may be effected on regulated markets either according to operative procedures which do not permit direct matching of purchase dealing orders with predetermined selling orders or through purchase and sale of derivative instruments negotiated in regulated markets which require the physical delivery of the underlying shares, as described above. The Board was also authorized to sell the savings treasury shares, once purchased, within the same 18-month time limit.

### ***Reporting Requirements and Restrictions on Acquisitions of Shares***

Pursuant to Italian securities regulations any acquisition or sale of an interest in excess of 2%, 5%, 7.5%, 10% and all higher multiples of five, in the voting shares of a listed company, must be notified to the listed company and to Consob within five trading days (defined as days on which Borsa Italiana is open) following the acquisition or sale. Consob must make such information public within three trading days from the notification.

For purposes of the disclosure requirements referred above: (i) a person's holding must include both the shares owned by such person, even if the voting rights belong or are assigned to third parties, and the shares whose voting rights belong or are assigned to such person; (ii) a person's holding shall also include both the shares owned by nominees, trustees or subsidiary companies and the shares of which the voting rights belong or are assigned to such persons; (iii) shares registered in the names of or endorsed to trustees and those whose voting rights are assigned to an intermediary in connection with collective or individual portfolio management services are not to be attributed to the persons controlling the trustee or the intermediary.

For the purposes of the disclosure requirements for 5%, 10%, 25%, 50% and 75% thresholds, the calculation of holdings shall also include issued and subscribed shares that a person may buy or sell on his own initiative, either directly or through nominees, trustees or subsidiary companies. Shares that may be acquired by exercising conversion rights or warrants shall be included in the calculation only if the acquisition can be made within sixty days.

Shareholder agreements concerning the voting shares of a listed company must be notified to Consob, published in abridged form in the daily press and filed with the Company Register of the place where the company has its registered office if they provide for duties of consultation before voting, set limits on the transfer or provide for the purchase of the relevant shares, have as their object or effect the exercise of a dominant influence on the company, aim to encourage or frustrate a takeover bid or equity swap, including commitments relating to non-participation in a takeover bid. The same rule applies when the shareholder agreements concern the shares issued by a non-listed company that controls a listed company. The notification must include the share ownership of all parties filing it.

When listed companies change their share capital, they must notify Consob and Borsa Italiana of the amount of the share capital and the number and classes of shares into which it is divided. Consob and Borsa Italiana must make the information available to the public no later than the day following the notification. The notification shall be made no later than the day following the event causing such modification or the day following the filing of the amended Bylaws.

In accordance with Italian antitrust laws and regulations, the Antitrust Authority is required to prohibit acquisitions of sole or joint control over a company that would create or strengthen a dominant position in the

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domestic market or a significant part thereof. However, if the acquiring party and the company to be acquired operate in more than one Member State of the EU and exceed certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission. See “Item 4. Information on the Telecom Italia Group—4.3 Regulation”.

### ***Limitations on Voting and Shareholdings***

There are no limitations imposed by Italian law or by the Bylaws of Telecom Italia on the rights of non-residents of Italy or foreign persons to hold or vote the Shares other than those limitations resulting from the special powers of the State, which apply equally to all owners of Shares, Italian and foreign alike.



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## 10.5 DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

Following the Merger, Olivetti as the surviving company changed its name to "Telecom Italia S.p.A.", succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. Telecom Italia completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia has entered into two Deposit Agreements among the Company, JPMorgan Chase Bank, as depositary, and the registered Holders from time to time of ADRs issued thereunder. The first such Deposit Agreement, dated as of July 17, 2003, provides for the deposit of Ordinary Shares in registered form, par value 0.55 euros each and the issuance of the Ordinary Share ADSs; the second such Deposit Agreement, also dated as of July 17, 2003 provides for the deposit of Savings Shares in registered form, par value 0.55 euros each and the issuance of the Savings Share ADSs. Because these agreements are otherwise substantially identical, such agreements (including all exhibits and amendments thereto) are referred to herein as the "Deposit Agreement", deposited Shares as well as deposited Savings Shares are referred to as "Shares", and the Ordinary Share ADSs or Savings Share ADSs, as the case may be, are referred to as the "ADSs". The following is a summary of the material provisions of the Deposit Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary in New York (the "Principal New York Office"), which is presently located at 4 New York Plaza, New York, New York 10004. Terms used herein and not otherwise defined shall have the respective meanings set forth in the Deposit Agreement.

ADRs evidencing ADSs are issuable by the Depositary pursuant to the terms of the Deposit Agreement. Each ADS represents, as of the date hereof, the right to receive 10 Ordinary Shares (in the case of each Ordinary Share ADS) or 10 Savings Shares (in the case of each Savings Share ADS) in each case deposited under the Deposit Agreement (together with any additional Ordinary Shares deposited thereunder and all other securities, property and cash received and held thereunder at any time in respect of or in lieu of such deposited Ordinary Shares, the "Deposited Securities") with the Custodian, currently the Milan office of BNP Paribas (together with any successor or successors thereto, the "Custodian"). An ADR may evidence any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and the Company as Holders.

### Deposit, Issuance, Transfer and Withdrawal

In connection with the deposit of Ordinary Shares under the Deposit Agreement, the Depositary or the Custodian may require the following in form satisfactory to it: (a) a written order directing the Depositary to issue or execute and deliver to, or upon the written order of, the person or persons designated in such order an ADR or ADRs evidencing the number of ADSs representing such Deposited Securities (a "Delivery Order"); (b) proper endorsements or duly executed instruments of transfer in respect of such Deposited Securities; and (c) instruments assigning to the Custodian or its nominee any distribution on or in respect of such Deposited Securities until the Ordinary Shares are registered in the name required by the Depositary or indemnity therefore. As soon as practicable after the Custodian receives Deposited Securities pursuant to any such deposit or pursuant to any distribution upon Deposited Securities or change affecting Deposited Securities, the Custodian shall present such Deposited Securities for registration of transfer into the name of the Custodian or its nominee, to the extent such registration is practicable, at the cost and expense of the person making such deposit (or for whose benefit such deposit is made) and shall obtain evidence satisfactory to it of such registration. Deposited Securities shall be held by the Custodian for the account and to the order of the Depositary at such place or places and in such manner as the Depositary shall determine. The Depositary agrees to instruct the Custodian to place all Ordinary Shares accepted for deposit into a segregated account separate from any Ordinary Shares of the Company that may be held by such Custodian under any other depositary receipt facility relating to the Ordinary Shares. Deposited Securities may be delivered by the Custodian to any person only under the circumstances expressly contemplated in the Deposit Agreement. To the extent that the provisions of or governing the Shares make delivery of certificates therefore impracticable, Ordinary Shares may be deposited by such delivery thereof as the Depositary or the Custodian may reasonably accept, including, without limitation, by causing them to be credited to an account maintained by the Custodian for such purpose with the Company or an accredited intermediary, such as a bank, acting as a registrar for the Ordinary Shares, together with delivery of the documents, payments and Delivery Order referred to herein to the Custodian or the Depositary. Neither the Depositary nor the Custodian shall lend Deposited Securities.

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After any such deposit of Ordinary Shares, the Custodian shall notify the Depositary of such deposit and of the information contained in any related Delivery Order by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. After receiving such notice from the Custodian (or such other evidence as the Company may accept), the Depositary, subject to the Deposit Agreement, shall properly issue or execute and deliver, as the case may be at the transfer office of the Depositary (the "Transfer Office"), to or upon the order of any person named in such notice, an ADR or ADRs registered as requested and evidencing the aggregate ADSs to which such person is entitled. ADSs may be issued in certificated form or through the direct registration system utilized by the Depositary pursuant to which the Depositary may record the ownership of ADRs without the issuance of a certificate, which ownership shall be evidenced by periodic statements issued by the Depositary to the Holders entitled thereto.

Subject to the terms of the Deposit Agreement, the Depositary may so issue ADRs for delivery at the Transfer Office only against deposit with the Custodian of: (a) Ordinary Shares in form satisfactory to the Custodian; (b) rights to receive Ordinary Shares from the Company or any registrar, transfer agent, clearing agent or other entity recording Share ownership or transactions; or (c) other rights to receive Shares (until such Shares are actually deposited pursuant to (a) or (b) above, "Pre-released ADRs") only if (i) Pre-released ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities held by the Depositary for the benefit of Holders (but such collateral shall not constitute Deposited Securities), (ii) each recipient of Pre-released ADRs agrees in writing with the Depositary that such recipient (a) owns such Shares, (b) assigns all beneficial right, title and interest therein to the Depositary, (c) holds such Shares for the account of the Depositary and (d) will deliver such Shares to the Custodian as soon as practicable and promptly upon demand therefore and (iii) all Pre-released ADRs evidence not more than 20% of all ADSs (excluding those evidenced by Pre-released ADRs) provided; however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for Pre-released ADRs and its charges for issuance thereof. At the request, risk and expense of the person depositing Shares, the Depositary may accept deposits for forwarding to the Custodian and may deliver ADRs at a place other than its office. Shares or evidence of rights to receive Shares may be deposited through (x) electronic transfer of such Shares to the account maintained by the Custodian for such purpose at Monte Titoli S.p.A., (y) evidence satisfactory to the Custodian of irrevocable instructions to cause such Shares to be transferred to such account or (z) delivery of the certificates representing such Shares. If use of the Monte Titoli book-entry system in connection with the Shares is discontinued at any time for any reason, the Company shall make other book-entry arrangements (if any) that it determines, after consultation with the Depositary, are reasonable. Every person depositing Shares under the Deposit Agreement represents and warrants that such Shares are validly issued and outstanding, fully paid, non assessable and free of pre-emptive rights, that the person making such deposit is duly authorized so to do and that such Shares (A) are not "restricted securities" as such term is defined in Rule 144 under the Securities Act of 1933 unless at the time of deposit they may be freely transferred in accordance with Rule 144(k) and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of ADRs.

Subject to the terms and conditions of the Deposit Agreement, upon surrender of (i) a certificated ADR in form satisfactory to the Depositary at the Transfer Office or (ii) proper instructions and documentation in the case of a Direct Registration ADR, the Holder is entitled to delivery at the Custodian's office of the Deposited Securities at the time represented by the ADSs evidenced thereby. At the request, risk and expense of the Holder of an ADR, the Depositary may deliver such Deposited Securities at such other place as may have been requested by the Holder.

### Distributions on Deposited Securities

Subject to the terms and conditions of the Deposit Agreement, to the extent practicable, the Depositary will distribute to each Holder entitled thereto on the record date set by the Depositary therefore at such Holder's address shown on the ADR Register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by ADSs evidenced by such Holder's ADRs:

- *Cash.* Any U.S. dollars available to the Depositary resulting from a cash dividend or other cash distribution or authorized portion thereof ("Cash"), on an averaged, if possible, or other practicable

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basis, subject to appropriate adjustments for (i) taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain Holders, and (iii) deduction of the Depositary's expenses in (1) converting any foreign currency to U.S. dollars by sale or in such other manner as the Depositary may determine to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

- *Shares.* (i) Additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares (a "Share Distribution") and (ii) U.S. dollars available to it resulting from the net proceeds of sales of Shares received in a Share Distribution, which Shares would give rise to fractional ADSs if additional ADRs were issued therefore, as in the case of Cash.
- *Rights.* (i) *Warrants* or other instruments in the discretion of the Depositary after consultation with the Company, to the extent practicable, representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities ("Rights"), to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same (the Company has no obligation to so furnish such evidence), or (ii) to the extent the Company does not so furnish such evidence and sales of Rights are practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Rights as in the case of Cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the non-transferability of the Rights, limited markets therefore, their short duration or otherwise, nothing (and any Rights may lapse).
- *Other Distributions.* (i) Securities or property available to the Depositary resulting from any distribution on Deposited Securities other than Cash, Share Distributions and Rights ("Other Distributions"), by any means that the Depositary may deem equitable and practicable, or (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Other Distributions as in the case of Cash. Such U.S. dollars available will be distributed by checks drawn on a bank in the United States for whole dollars and cents (any fractional cents being withheld without liability for interest and added to future Cash distributions).

To the extent that the Depositary determines in its discretion that any distribution is not practicable with respect to any Holder, the Depositary, after consultation with the Company, may make such distribution as it so deems practicable, including the distribution of foreign currency, securities or property (or appropriate documents evidencing the right to receive foreign currency, securities or property) or the retention thereof as Deposited Securities with respect to such Holder's ADRs (without liability for interest thereon or the investment thereof).

There can be no assurance that the Depositary will be able to effect any currency conversion or to sell or otherwise dispose of any distributed or offered property, subscription or other rights, Shares or other securities in a timely manner or at a specified rate or price, as the case may be.

### Disclosure of Interests

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Holders and all persons holding ADRs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in the Depositary's compliance with any Company instructions in respect thereof, and the Depositary will use reasonable efforts to comply with such Company instructions.

### Record Dates

The Depositary shall, to the extent necessary, after consultation with the Company, if practicable, fix a record date (which shall be as near as practicable to any corresponding record date set by the Company) for the

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determination of the Holders who shall be entitled to receive any distribution on or in respect of Deposited Securities, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Holders at the close of business on such record date shall be so entitled.

### Voting of Deposited Securities

Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of Shares the Depositary will, unless otherwise instructed by the Company, promptly thereafter, distribute to all Holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to applicable provisions of Italian law and of the Company's Certificate of Incorporation and Bylaws (any such provisions, if material, will be summarized in such notice), to instruct the Depositary as to the exercise of voting rights, if any (subject to compliance by such Holder with the requirements described below) pertaining to the number of Shares represented by their respective ADSs, (iii) if applicable, a statement as to the manner in which such Holders may request a proper communication to the issuer attesting that beneficial ownership of the related Shares is in the name of the Holders and therefore enabling them to exercise voting rights with respect to the Shares represented by their ADSs without the use of ADS proxy cards, (iv) if applicable, an ADS proxy card pursuant to which such Holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such ADS proxy card, and (v) such other information, including any such modification to the foregoing procedures as agreed between the Depositary and the Company.

Upon receipt by the Depositary of a properly completed ADS proxy card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and the Company's Certificate of Incorporation and Bylaws, to vote or cause to be voted the Shares underlying such ADRs in accordance with any nondiscretionary instructions set forth in such ADS proxy card. The Depositary will not vote or attempt to exercise the right to vote that attaches to Shares underlying such ADRs other than in accordance with such instructions.

A Holder desiring to exercise voting rights with respect to the Shares represented by its ADSs without the use of an ADS proxy card may do so by (A) depositing its ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such Holder, the number of ADSs represented by ADRs held by such Holder and any other information required in accordance with Italian law or the Company's Certificate of Incorporation and Bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a communication for such meeting, which gives notice to the Company of such Holder's intention to vote the Shares underlying its ADRs. By giving the instructions set forth under point (B) above, Holders will be deemed to have authorized the Custodian to prohibit any transfers of the related Shares for the blocked period.

A precondition for the issue of the communication for a specific meeting by the Custodian may be that beneficial ownership of the related Shares has been in the name of the Holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of the Company's Certificate of Incorporation and Bylaws.

Under Italian law, shareholders at shareholders' meetings may modify the resolutions presented for their approval by the Board of Directors. In such case Holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

When the Company makes its annual accounts available at its offices in connection with a general meeting of shareholders at which a vote will be taken on such accounts, the Company will deliver to the Depositary and the Custodian copies of such accounts. Until such meeting, the Depositary will make available copies of such accounts for inspection at the office of the Depositary in New York (the "Transfer Office"), the office of the Custodian in Milan, Italy and any other designated transfer offices.

In the Deposit Agreement, the Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable Holders to vote the Shares underlying their ADRs.

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### Inspection of Transfer Books

The Deposit Agreement provides that the Depositary or its agent will keep books at its Transfer Office for the registration, registration of transfer, combination and split-up of ADRs, and, in the case of Direct Registration ADRs, shall include the Direct Registration System which at all reasonable times will be open for inspection by the Holders and the Company for the purpose of communicating with Holders in the interest of the business of the Company or a matter relating to the Deposit Agreement.

### Reports and Other Communications

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Deposited Securities and made generally available to the holders of Deposited Securities, are available for inspection by Holders at the offices of the Depositary and the Custodian and at the Transfer Office. The Depositary will mail copies of such communications (or English translations or summaries thereof) to Holders when furnished by the Company.

On or before the first date on which the Company makes any communication generally available to holders of Deposited Securities or any securities regulatory authority or stock exchange, by publication or otherwise, the Company shall transmit to the Depositary a copy thereof in English or with an English translation or summary. The Company has delivered to the Depositary and the Custodian, a copy of all provisions of or governing the Shares (other than copies of Italian law) and any other Deposited Securities issued by the Company or any affiliate of the Company, if any, and, promptly upon any change thereto, the Company shall deliver to the Depositary and Custodian, a copy (in English or with an English translation) of such provisions (other than copies of Italian law) as so changed.

### Changes Affecting Deposited Securities

Subject to the terms of the Deposit Agreement and the ADRs, the Depositary may, in its discretion, amend the ADRs or distribute additional or amended ADRs (with or without calling ADRs for exchange) or cash, securities or property on the record date set by the Depositary therefore to reflect any change in par value, split-up, consolidation, cancellation or other reclassification of Deposited Securities, any Share Distribution or Other Distribution not distributed to Holders or any cash, securities or property available to the Depositary in respect of Deposited Securities from (and the Depositary is hereby authorized to surrender any Deposited Securities to any person and to sell by public or private sale any property received in connection with) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all the assets of the Company, and to the extent the Depositary does not so amend the ADRs or make a distribution to Holders to reflect any of the foregoing, or the net proceeds thereof, whatever cash, securities or property results from any of the foregoing shall constitute Deposited Securities and each ADS evidenced by ADRs shall automatically represent its pro rata interest in the Deposited Securities as then constituted.

### Amendment and Termination of Deposit Agreement

The ADRs and the Deposit Agreement may be amended by the Company and the Depositary, provided that any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that shall otherwise prejudice any substantial existing right of Holders, shall become effective 30 days after notice of such amendment shall have been given to the Holders. Every Holder of an ADR at the time any amendment to the Deposit Agreement so becomes effective shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement and the ADRs as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. Any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for (a) the ADSs to be registered on Form F-6 under the Securities Act of 1933 or (b) the ADSs or Shares to be traded solely in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Holders, shall be deemed not to prejudice any substantial rights of Holders. Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of ADR



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to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the ADR at any time in accordance with such changed rules. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance.

Upon any resignation of the Depositary which does not become effective during the earlier of (i) 90 days from the date of the Depositary shall have resigned as such and (ii) the date on which the Company shall have appointed a successor depositary or on any removal of the Depositary pursuant to the Deposit Agreement, the Depositary may, and shall at the written direction of the Company, terminate the Deposit Agreement and this ADR by mailing notice of such termination to the Holders at least 30 days prior to the date fixed in such notice for such termination. After the date so fixed for termination, the Depositary and its agents will perform no further acts under the Deposit Agreement and this ADR, except to receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn. As soon as practicable after the expiration of six months from the date so fixed for termination, the Depositary shall sell the Deposited Securities and shall thereafter (as long as it may lawfully do so) hold in a segregated account the net proceeds of such sales, together with any other cash then held by it under the Deposit Agreement, without liability for interest, in trust for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary shall be discharged from all obligations in respect of the Deposit Agreement and this ADR, except to account for such net proceeds and other cash. After the date so fixed for termination, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents.

### Charges of Depositary

The Depositary may charge each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions, and each person surrendering ADSs for withdrawal of Deposited Securities, U.S.\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. In addition, the Depositary may charge Holders, a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities (for purposes hereof treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Holders entitled thereto. The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) and (v) such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation (see "Item 12D. American Depositary Shares").

### Liability of Holders for Taxes

If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to an ADR, any Deposited Securities represented by the ADSs evidenced thereby or any distribution thereon, such tax or other governmental charge shall be paid by the Holder thereof to the Depositary. The Depositary may refuse to effect any registration, registration of transfer, split-up or combination or, only for those reasons set forth in General Instruction I.A.(1) of Form F-6 under the Securities Act, any withdrawal of Deposited Securities until such payment is made. The Depositary may also deduct from any distributions on or in respect of Deposited Securities, or may sell by public or private sale for the account of the respective Holder any part or all

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of such Deposited Securities (after attempting by reasonable means to notify the Holder thereof prior to such sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge, the respective Holder remaining liable for any deficiency, and shall reduce the number of ADSs evidenced thereby to reflect any such sales of Shares.

In connection with any distribution to Holders, the Company or its agents will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Company or its agents; and the Depositary and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by the Depositary or the Custodian. The Depositary shall forward to the Company or its agent such information from its records as the Company may request to enable the Company or its agent to file necessary reports with governmental authorities or agencies. If the Depositary determines that any distribution in property other than cash (including Shares or rights) on Deposited Securities is subject to any tax that the Depositary or the Custodian is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes, by public or private sale, and the Depositary shall distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes to the Holders entitled thereto.

The Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described herein) to enable persons that are considered United States residents for purposes of applicable law to receive any rebates, tax credits or other benefits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. Notwithstanding the above, the Company may, by written notice to the Depositary, modify or withdraw the procedures described in this paragraph (including by ceasing to pay to the Depositary any amounts in respect of refunds of Italian withholding taxes), to the extent the Company determines that its participation in the refund process is no longer lawful or practical.

See “—10.6 Taxation” for additional information on tax issues relating to ADRs.

## General Limitations

The Depositary, the Company, their agents and each of them shall: (a) incur no liability (i) if any present or future law, regulation, the provisions of or governing any Deposited Securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or this ADR provides shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or this ADR; (b) assume no liability except to perform its obligations to the extent they are specifically set forth in this ADR and the Deposit Agreement without gross negligence or bad faith; (c) in the case of the Depositary and its agents, be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR; (d) in the case of the Company and its agents hereunder be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required; or (e) not be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary, its agents and the Company may rely and shall be protected in acting upon any written notice, request, direction or other document believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties. The Depositary and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such act or omission to act is in good faith), for the manner in which any such vote is cast or for the effect of any such vote. The Depositary and its agents may own and deal in any class of securities of the Company and its affiliates and in ADRs. Neither the Company, the Depositary nor any of their respective agents shall be liable to Holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages.

Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or, subject to the last sentence of this paragraph, the withdrawal of any Deposited



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Securities, and from time to time, in the case of clause (b)(ii) of this paragraph, the Company, the Depositary or the Custodian may require: (a) payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges; (b) the production of proof satisfactory to it of (i) the identity and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement. The Depositary shall provide to the Company, promptly upon its written request, copies of any such proofs of citizenship or residence or other information referred to in (b) above so requested. The issuance of ADRs, the acceptance of deposits of Shares, the registration, registration of transfer, split-up or combination of ADRs or, subject to the last sentence of this paragraph, the withdrawal of Deposited Securities may be suspended, generally or in particular instances, when the ADR register or any register for Deposited Securities is closed or when any such action is deemed necessary or advisable by the Depositary or the Company. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the withdrawal of Deposited Securities may be restricted only for the reasons set forth in General Instruction I.A.(1) of Form F-6 (as such instructions may be amended from time to time) under the Securities Act.

### **Governing Law**

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York.

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## 10.6 TAXATION

Unless otherwise indicated, for purposes of the following discussion regarding taxation, the Ordinary Shares and the Savings Shares are collectively referred to as the "Telecom Italia Shares".

### 10.6.1 ITALIAN TAXATION

The following is a summary of material Italian tax consequences of the ownership and disposition of Ordinary Shares, Savings Shares or ADSs as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Shares, Savings Shares or ADSs. For purposes of Italian law and the Italian-U.S. Income Tax Convention (the "**Treaty**"), holders of ADSs which are evidenced by ADRs will be treated as holders of the underlying Shares or Savings Shares, as the case may be. The 1999 Treaty between Italy and U.S. entered into force and took effect for taxable periods beginning on or after January 1, 2010.

#### *Income Tax*

As a general principle, non-resident taxpayers are liable to Italian income tax with respect to income which is treated as arising in Italy, unless such income is subject to a final withholding tax deducted by the payer of the income. Payments of dividends which take place on or after January 1, 2012, either to holders of Ordinary Shares and applicable ADSs or to holders of Savings Shares and applicable ADSs, who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 20% final withholding tax. The obligation to withhold such tax is imposed on the resident company/intermediary paying the dividends. Dividends paid prior to January 1, 2012 were subject to withholding tax at a rate of 12.5% if paid to holders of Savings Shares and applicable ADSs or at a rate of 27% if paid to holders of Ordinary Shares and applicable ADSs.

All shares of Italian listed companies have to be registered in a centralized deposit system. With respect to dividends paid in connection with shares held in the centralized deposit system managed by Monte Titoli, such as Telecom Italia Shares, instead of the withholding tax mentioned above, a substitute income tax will apply at the same tax rates as the above-mentioned withholding tax. This substitute income tax is levied by, and under the responsibility of, the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system. With respect to any dividends paid within the above mentioned centralized deposit, Telecom Italia assumes no responsibility for the withholding of tax at the source (and application of tax treaties, as stated below) as such responsibility lies entirely on the Italian authorized intermediaries with whom the securities are deposited.

Non-resident holders of Ordinary Shares and applicable ADSs have the right to recover within 48 months from the date of payment of the Italian substitute income tax, up to one-fourth of such 20% substitute tax on their dividend income, upon providing adequate evidence, certified by the tax authorities in their home country, that they paid a corresponding amount of income tax in their home country on the same dividend income.

These refunds are normally subject to extensive delays. In addition, these refunds are an alternative to seeking any relief from double taxation under an income tax treaty, including the Treaty.

U.S. resident beneficial owners of Shares (either Ordinary or Savings Shares) and related ADSs may be entitled to a reduced tax rate on their dividends under the Treaty. Where a U.S. resident owner: (i) qualifies for the benefits of the Treaty and meets all the requirements of the Treaty provision dealing with limitation on benefits, (ii) is the actual beneficial owner of the dividends, and (iii) the dividends paid are not connected with a permanent establishment in Italy through which the U.S. resident owner carries on a business or with a fixed base in Italy through which the U.S. resident owner performs independent personal services, the Treaty generally provides that Italian taxes cannot exceed 15% of the gross amount of the dividend (this 15% rate may be reduced to 5% when the beneficial owner of the dividends is a U.S. company which has owned at least 25 percent of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared).

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To obtain the reduced tax rate afforded by the Treaty, a beneficial owner of Telecom Italia Shares or ADSs must provide, before the dividend is paid (usually, according to the intermediary instructions), the intermediary with which the shares are deposited and which participates in the Monte Titoli system with the following documentation:

- (i) a declaration by the beneficial owner containing all the data identifying such person as the beneficial owner and establishing the existence of all the conditions necessary for the application of the Treaty; and
- (ii) in the case of a U.S. holder, a certification (Form 6166) issued by the U.S. Internal Revenue Service that states that the beneficial owner is a U.S. resident for tax purposes. The certification is valid until March 31 of the year following the submission.

The processing of requests for certification by the U.S. Internal Revenue Service may take a substantial period of time. Accordingly, in order to be eligible for the procedure described below, eligible ADS holders should begin the process of obtaining Form 6166 as soon as possible after receiving instructions from the Depositary on how to claim the reduced rate provided by the Treaty.

The Depositary's instructions, which will be sent to all ADS holders before the dividend payment date, will specify certain deadlines for delivering to the Depositary any documentation required to obtain the reduced rate provided by the Treaty, including the certification that the eligible ADS holders must obtain from the U.S. Internal Revenue Service. In the case of ADSs held through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depositary. In all other cases, the eligible ADS holders should deliver the required documentation directly to the Depositary.

If the holder of Telecom Italia Shares or ADSs fails to obtain the reduced rate provided by the Treaty at the time the dividend is paid, a refund equal to the difference between the Treaty rate and the Italian tax, withheld at the payment of dividends, may be claimed directly from the Italian tax authorities. Extensive delays have been encountered by U.S. residents seeking payments directly from the Italian authorities.

In the case of dividends derived by a U.S. partnership, the reduction of the tax rate under the Treaty is only available to the extent such dividends are subject to U.S. tax in the hands of the partners.

### ***Capital Gains Tax***

Under Italian law, capital gains tax ("**CGT**") is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. However, capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies whose shares or ADSs are listed on a stock exchange and resident in Italy for tax purposes (as is the case for Telecom Italia) are not subject to CGT.

A "qualified shareholding" consists of securities (except for Saving Shares and applicable ADSs) that (i) entitle the holder to exercise more than 2% of the voting rights of a company with shares listed on a stock exchange (Telecom Italia is such a company) in the ordinary meeting of the shareholders or (ii) represent more than 5% of the share capital of a company with shares listed on a stock exchange (Telecom Italia is such a company). A "non-qualified shareholding" is any shareholding that does not meet the above mentioned requirements to be qualified as a "qualified shareholding".

The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period (the period starting from the day on which the taxpayer holds shareholding higher than the abovementioned percentages of 2% or 5%).

Pursuant to the Treaty, a U.S. resident will not be subject to Italian CGT on a sale of qualified shareholdings unless the Telecom Italia Shares or ADSs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell Telecom Italia Shares or ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty provisions have been satisfied if CGT would otherwise be applicable.

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### ***Inheritance and Gift Tax.***

The transfers of any valuable asset (including Shares, Savings Shares and ADSs) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

- (i) transfers in favour of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4% on the value of the inheritance or the gift exceeding €1,000,000 (per beneficiary);
- (ii) transfers in favour of brothers and sisters are subject to an inheritance and gift tax applied at a rate of 6% on the value of the inheritance or the gift exceeding €100,000 (per beneficiary). The same tax rate applies in favour of handicapped individuals on the value of inheritance or gift exceeding €1,500,000 (per beneficiary);
- (iii) transfers in favour of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6% on the entire value of the inheritance or the gift;
- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8% on the entire value of the inheritance or the gift.

With respect to listed shares, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued during the interim). With respect to unlisted shares, the value is determined proportionally to the equity resulting from the last approved balance sheet of the company.

There is currently no gift tax convention between Italy and the United States.

### ***Registration Tax***

Contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarized deeds are subject to fixed registration tax at a rate of 168 euros; (ii) private deeds are only subject to registration tax in case of use or voluntary registration.

### ***Stamp taxes and duties***

As of January 1, 2012, the new law on stamp duty on securities and financial products entered into force. Such stamp duty applies on a yearly basis at the rate of 0.1 per cent for 2012 and of 0.15 per cent for subsequent years on the market value or—if no market value is available—on the nominal value or the redemption amount of any financial product or financial instruments (including the shares or ADSs). The stamp duty cannot be lower than Euro 34.2 and, in year 2012 only, cannot exceed Euro 1,200. The actual scope of such stamp duty is currently uncertain since a Decree of the Ministry of Finance will specify the implementing provision of such new stamp duty. Based on the wording of the law, it may be argued that the stamp duty applies to both Italian resident shareholders and to non-Italian resident shareholders, to the extent that the shares or ADSs are held with an Italian-based financial intermediary.

## **10.6.2 UNITED STATES FEDERAL INCOME TAXATION**

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Telecom Italia Shares or ADSs representing Telecom Italia Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds Telecom Italia Shares or ADSs as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special treatment, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding Telecom Italia Shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Telecom Italia Shares or ADSs;

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- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own ten percent or more of the voting stock of Telecom Italia;
- persons who acquired Telecom Italia Shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding Telecom Italia Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Telecom Italia Shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Telecom Italia Shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Telecom Italia Shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of Telecom Italia Shares or ADSs who is eligible for the benefits of the Treaty and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary (“pre-release”), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Italian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Telecom Italia Shares or ADSs in their particular circumstances.

This discussion assumes that Telecom Italia is not, and will not become, a passive foreign investment company, as described below.

### ***Taxation of distributions***

Distributions made with respect to the Telecom Italia Shares or ADSs (other than certain pro rata distributions of Telecom Italia Shares or ADSs), including any Italian tax withheld, will generally constitute foreign source

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dividend income for U.S. federal income tax purposes to the extent such distributions are made from Telecom Italia's current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Because Telecom Italia does not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. If you are a non-corporate U.S. Holder, subject to applicable limitations that may vary depending on your particular circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to you in taxable years beginning before January 1, 2013 may be taxable at a maximum tax rate of 15%. Non-corporate U.S. Holders should consult their own tax advisers regarding the availability of the reduced tax rate on dividends. If you are a corporate U.S. Holder you will not be entitled to claim a dividends-received deduction for dividends paid on the Telecom Italia Shares or ADSs. The amount of any cash distribution paid in euros, including the amount of any Italian tax withheld, will be included in your income in an amount equal to the U.S. dollar value of such euros on the date of receipt by the Depository, in the case of U.S. Holders of ADSs, or by the U.S. Holder, in the case of U.S. Holders of Telecom Italia Shares, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of its receipt. Gain or loss, if any, recognized on the sale or other disposition of such euros will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations and restrictions and the discussion above regarding concerns expressed by the U.S. Treasury, Italian taxes withheld from distributions on Telecom Italia Shares or ADSs at a rate not in excess of that applicable under the Treaty will be eligible for credit against a U.S. Holder's U.S. federal income tax liability. Italian taxes withheld in excess of the rate applicable under the Treaty will generally not be eligible for credit against a U.S. Holder's U.S. federal income tax liability (See "Section 10.6.1—Italian Taxation—Income Tax" for a discussion of how to obtain the Treaty withholding rate). Instead of claiming a credit, you may, at your election, deduct such Italian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. You should consult your tax adviser concerning the foreign tax credit implications of the payment of any Italian withholding taxes.

### ***Taxation of capital gains***

A U.S. Holder will generally recognize U.S. source capital gain or loss on the sale or other disposition of Telecom Italia Shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder held the Telecom Italia Shares or ADSs for more than one year. The amount of gain or loss will be equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the Telecom Italia Shares or ADSs in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

### ***Passive Foreign Investment Company Rules***

Telecom Italia believes that it was not a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes for 2011. However, since PFIC status depends upon the composition of Telecom Italia's income and assets and the market value of Telecom Italia's assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that Telecom Italia will not be a PFIC for any taxable year. If Telecom Italia were a PFIC for any taxable year during which a U.S. Holder held Telecom Italia Shares or ADSs, certain adverse tax consequences could apply to the U.S. Holder.

### ***Foreign Financial Asset Reporting***

Certain U.S. Holders who are individuals may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on Form 8938, subject to exceptions (including an exception for stock held through a U.S. financial institution). Certain U.S. Holders that are entities may be subject to similar rules in the future. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to their Telecom Italia Shares or ADSs.

Item 10. Additional Information	Taxation
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### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Service Revenue.



Item 10. Additional Information	Documents on Display
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## 10.7 DOCUMENTS ON DISPLAY

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at the website [www.sec.gov](http://www.sec.gov).

Our ADSs are listed on the New York Stock Exchange under the symbol "TI". You may inspect any periodic reports and other information filed with or furnished to the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Italian securities commission and the Italian stock exchanges, and we file reports and other information relating to our business, financial condition and other matters with the Italian securities commission and the Italian stock exchange. You may read such reports, statements and other information, including the annual and biannual financial statements, at the website [www.borsaitaliana.it](http://www.borsaitaliana.it). Some of our Italian securities commission filings are also available at the website maintained by the Italian securities commission at the website [www.consob.it](http://www.consob.it).

As described elsewhere in this Annual Report, certain reports, statements and presentations related to Telecom Italia can be found on our website at [www.telecomitalia.com](http://www.telecomitalia.com).

We have appointed JPMorgan Chase Bank, N.A. to act as depositary for our ADSs. JPMorgan Chase Bank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of our ADSs. Any record holder of our ADSs may read such reports and communications or summaries thereof at JPMorgan Chase Bank's office located at 4 New York Plaza, New York, New York 10004.

**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

With regard to the quantitative and qualitative disclosures about market risks, please see the “Note—Financial Risk Management” of the Notes to the Consolidated Financial Statements included elsewhere herein, which provides:

- the objectives and the policies for the management of the financial risks of Telecom Italia Group, and
- the sensitivity analyses of the market risks we are exposed to.

The above mentioned Note should be read in conjunction with the “Note—Accounting Policies”, “Note—Derivatives” and “Note—Supplementary Disclosures on Financial Instruments” of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, which provide other information relating to financial instruments.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12A. DEBT SECURITIES**

Not applicable.

**Item 12B. WARRANTS AND RIGHTS**

Not applicable.

**Item 12C. OTHER SECURITIES**

Not applicable.

**Item 12D. AMERICAN DEPOSITARY SHARES**

***Description of fees and charges paid by ADR Holders***

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement between JP Morgan Chase Bank, as depositary (the "**Depository**"), Telecom Italia S.p.A. and Holders of American Depositary Receipts dated as of July 17, 2003, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company's ADR Program, which amounts are payable to the Depository.

Item 12. Description Of Securities Other Than Equity Securities	
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Category of Service	Depository Actions	Associated Fee
a) Deposit of underlying shares or surrender of ADRs	Each person to whom ADSs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions.(1)  Each person surrendering ADRs for the withdrawal of deposited securities.	US\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
b) Cash dividends or distributions	Distribution of cash resulting from a cash dividend or other cash distribution.	Subject to deduction of Depositary's expenses in (i) converting foreign currency to US dollars by sale or such other manner considered reasonable by the Depositary (ii) transferring the foreign or US dollars to the United States and (iii) obtaining any license or approval of any governmental authority required for such conversion or transfer.
c) Distribution of securities	Distribution of securities (the fee being an amount equal to the fees for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities).	US\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
d) Expenses of the Depositary	Expenses incurred on behalf of Holders in connection with: <ul style="list-style-type: none"> <li>i) Stock transfer or other taxes and other governmental charges.</li> <li>ii) Cable, telex and facsimile transmission and delivery.</li> <li>iii) Expenses of the Depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency)</li> <li>iv) Such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation.</li> </ul>	<ul style="list-style-type: none"> <li>As necessary.</li> <li>US\$20.00 per transaction.</li> <li>As necessary.</li> <li>As necessary.</li> </ul>

(1) The Depositary may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

***Direct and indirect payments made by J.P. Morgan to Telecom Italia in relation to the Company's ADR program***

J.P. Morgan, as Depositary, has agreed to reimburse the Company for reasonable expenses incurred related to the Company's ADR Program including legal fees, investor relations servicing, investor relations presentations, broker reimbursements, ADR related advertising and public relations, accountant's fees and other bona fide third party expenses. In 2011 the Depositary reimbursed the Company in the amount of US\$1,000,000, all of which was used to cover accounting fees incurred in connection with the preparation of the 2009 Form 20-F.

As part of its service to the Company, J.P. Morgan has agreed to cover the standard costs associated with the administration of the ADR Program. Such costs include fees and expenses related to (1) general services (administration of the ADR Program, administration of ADR holders' accounts, maintenance of the ADR registry and other general services), services related to distribution of dividends and other cash distributions and tax and regulatory compliance services; (2) services related to the annual meeting; and (3) services to investor relations such as market updates, quarterly newsletters and market research.

Item 13. Defaults, Dividend Arrearages And Delinquencies	
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## PART II

### Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

<p><b>Item 14. Material Modification to the Rights Of Security Holders And Use Of Proceeds</b></p>	
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**Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.



**Item 15. CONTROLS AND PROCEDURES****15.1. DISCLOSURE CONTROLS AND PROCEDURES**

The Company, under the supervision of the Executive Chairman and Chief Executive Officer, of the Domestic Managing Director and Chief Operating Officer and of the Head of Administration, Finance and Control & International Development, according to the Company's 404 Process guidelines (revised also to meet the reporting requirements set forth by article 154-bis of the Italian Legislative Decree 58/1998; the aforementioned Italian rule provides for a special report by the Executive Chairman and Chief Executive Officer, the Domestic Chief Executive Officer and Chief Operating Officer and the Head of Administration, Finance and Control & International Development of the issuer, broadly corresponding in scope to the certifications and the management's report on internal control over financial reporting required by the Sarbanes Oxley Act) performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2011. The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Company's Executive Chairman and Chief Executive Officer, the Company's Domestic Managing Director and Chief Operating Officer and the Company's Head of Administration, Finance and Control & International Development concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective at the reasonable assurance level.

**15.2. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's Executive Chairman and Chief Executive Officer, the Company's Domestic Managing Director and Chief Operating Officer and the Company's Head of Administration, Finance and Control & International Development and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures for the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

Based on management's assessment, management has concluded that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers S.p.A., the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2011. Their attestation report on internal control over financial reporting is included herein.

Item 15. Controls And Procedures	Changes in Internal Control Over Financial Reporting
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### 15.3. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 16. [RESERVED]****Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Auditors in office as of May 4, 2012 determined that each of its members is an “audit committee financial expert” as defined in Item 16A of Form 20-F. For the names of the members of the Board of Auditors, see “Item 6 Directors, Senior Management and Employees—6.3 Board of Auditors”.

**Item 16B. CODE OF ETHICS AND CONDUCT**

On March 23, 2004, Telecom Italia adopted its Code of Ethics and Conduct which applies—among the others—to the Chairman, the Chief Executive Officer, the Chief Financial Officer, as well as to all the Group’s employees in and outside Italy; the suppliers of the Company are required to accept and apply it, too. The Code of Ethics and Conduct has subsequently been amended from time to time by the Board of Directors, which acted on the basis of opinions by the Internal Controls and Corporate Governance Committee and the Board of Statutory Auditors, in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices. The Code of Ethics and Conduct in force is available on Telecom Italia’s website at [www.telecomitalia.com](http://www.telecomitalia.com). See also under “Item 16G. Corporate Governance—16.1.1 Differences in Telecom Italia’s Corporate Governance and New York Stock Exchange Corporate Governance Practices” and “Item 10 Additional Information—10.1 Corporate Governance”.

Item 16C. Principal Accountant Fees And Services	
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## Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the year ended December 31, 2011, PricewaterhouseCoopers S.p.A. is serving as Telecom Italia's independent auditor.

"PricewaterhouseCoopers" means PricewaterhouseCoopers S.p.A., the auditor of the Company, as well as all the Italian and foreign entities belonging to the PricewaterhouseCoopers network.

The following table sets forth the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers in 2011 and in 2010.

Type of Fees	Fiscal year ended December 31,	
	2011	2010
	(thousand of euros)	
Audit Fees(1) .....	7,853	7,265
Audit-related Fees(2) .....	422	189
Tax Fees (3) .....	86	17
<b>Total</b> .....	<b>8,361</b>	<b>7,471</b>

(1) Audit fees consist of fees billed for professional services in connection with Telecom Italia's annual financial statements, reviews of interim financial statements as well as comfort letters issued in relation to capital market transactions, agreed upon procedures for certain financial statement areas, included those required for some transactions by regulations in Italy and abroad, and technical accounting consultations.

(2) Audit-related fees consist of fees billed for professional services rendered in connection with assurance and related services not included under "Audit Fees".

(3) Tax fees consist of fees billed for professional services rendered for tax compliance and tax advice.

## Audit Committee's Pre-Approval Policies and Procedures

The Board of Auditors (also in its role as Telecom Italia's Audit Committee), in accordance with and to the extent permitted by applicable Italian law, is responsible for the appointment, retention and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements. To this effect, according to current Italian law, the Board of Auditors makes a reasoned proposal to the Shareholders' Meeting which appoints the external auditors and determines their compensation.

In March 2010, Telecom Italia, together with its Board of Auditors, adopted new Guidelines for the Appointment of external Auditors (the "**Group Procedure**"). Such procedure became effective concurrently with the appointment of PricewaterhouseCoopers S.p.A. as Telecom Italia's primary independent auditors.

The above mentioned Group Procedure provides instructions, among other things, for the following:

- appointment to audit the Company's financial statements: the appointment is authorized by Telecom Italia's shareholders' meeting, acting on a reasoned proposal from the Board of Auditors;
- additional appointments: the pre-approval, by Telecom Italia's Board of Auditors, of certain audit and permissible non-audit services to be provided by the external auditors (and associated persons) and the prohibition for certain services.

An approval is not granted if the service falls within a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence.

According to the Group Procedure, the Telecom Italia Board of Auditors pre-approved the following audit and permitted non-audit services.

## Audit Services:

- audit of the financial statements and reporting packages for consolidation of Telecom Italia's subsidiaries;
- review of the working papers of another auditor when necessary for the audit of the financial reports of Telecom Italia or companies it controls;

Item 16C. Principal Accountant Fees And Services	
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- verification services for the issue of consent letters;
- audit of financial statements and/or balance sheets to be published in prospectuses and information documents, offering memoranda and the like;
- accounting assistance and advice, including in relation to requests coming from CONSOB, the United States Securities and Exchange Commission and similar authorities;
- audit/verification services in connection with the awarding of grants/loans or obtaining specific tax or social security contribution treatment;
- verification of the conformity of so-called sustainability and social reports;
- issuance of comfort letters in relation to the implementation of extraordinary corporate actions;
- reports and opinions requested under law from the Appointed Auditor;
- attestations to participate in competitive tenders organized by (national or supranational) governmental bodies.

**Permitted Non-audit Services:**

- agreed procedures for aspects of regulatory accounting;
- accounting due diligence procedures for companies to be sold or acquired.

The Board of Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of auditors to provide various services, both audit and non-audit services, valid for the entire Group, which it did by requiring the introduction, from January 1, 2012, of an operative procedure which provides for prior examination by the Board of Auditors (even for pre-approved appointments and services) if certain qualitative conditions or when specific quantitative thresholds are exceeded. The Board of Auditors also stated that it will endorse the corresponding determinations adopted by the audit committees of the SEC-registered subsidiary companies, provided that they are made on the basis of rules compliant with the applicable regulations—including United States regulations—and in conformity with the Group Guidelines in the matter.

Furthermore, in accordance with the Group Procedure above, the Manager responsible for preparing the Company's financial reports (who acts under the supervision of the Telecom Italia Board of Auditors) sends, on a quarterly basis, to the Board of Auditors and the Internal Control and Corporate Governance Committee the information gathered on any Additional Appointments awarded and the services provided. In relation to the above-mentioned appointments, the Board of Auditors and the Internal Control and Corporate Governance Committee may have any verifications of compliance deemed necessary carried out by the Internal Control Manager.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Please see "Item 10. Additional Information—10.1. Corporate Governance".

**Item 16E. REPURCHASES OF EQUITY SECURITIES**

From January 1, 2011, to December 31, 2011, no purchases were made by or on behalf of Telecom Italia or any affiliated purchaser of Shares or Savings Shares.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE****16.1 DIFFERENCES IN TELECOM ITALIA'S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES**

We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

*Independent Directors.* Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. Telecom Italia's Self-Regulatory Code incorporates by reference the same independence criteria set forth by the Borsa Italiana Code. As of May 4, 2012, 6 out of 15 members of the Telecom Italia Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

For further details, see also "—10.1 Corporate Governance—General—Board of Directors—Independent Directors".

*Non-management Directors Meeting.* Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana's Corporate Governance Code requires independent directors to meet at least once a year without management present.

Telecom Italia's Self-Regulatory Code sets forth the position of Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors' Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2011 a total of seven such sessions were held. The Lead Independent Director may use the Company's support functions in performing his tasks. As of May 4, 2012 the position is held by Luigi Zingales. For further details, see also "—10.1 Corporate Governance—General—Board of Directors—Executive Directors and Activities of the Board".

*Board of Directors' Internal Committees.* According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Also according to Borsa Italiana's Corporate Governance Code, the Board of Directors shall establish among its members a Nominating Committee (made up, for the majority, of independent directors) a Remuneration Committee (made up of independent directors or of non executive directors, the majority of which to be independent) and a Control and Risk Committee (made up of independent directors of non executive directors, the majority of which being independent).

*Nominating/Corporate Governance Committee.* Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of Telecom Italia's bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0.5% of the share capital (or the different stake annually required to this end by Consob), to put forward slates of nominees for the appointment as directors: the system is intended to ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company's view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.



Item 16G. Corporate Governance	Differences In Telecom Italia's Corporate Governance And New York Stock Exchange Corporate Governance Practices
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On the other hand, Telecom Italia has an Internal Control and Corporate Governance Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by Telecom Italia. In addition, the Company's Self-Regulatory Code entrusts the Nomination and Remuneration Committee with a nomination responsibility, when it is necessary to substitute an independent director.

For further details, see also “—10.1 Corporate Governance—General—Board of Directors—Internal Committees”.

*Remuneration Committee.* Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO's compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

Telecom Italia has a Nomination and Remuneration Committee, made up of a majority of independent directors (one of them chosen from a minority slate). Pursuant to the Company's Self-regulatory Code, also interpreted in the light of best practice, and in accordance with the Self-regulatory Code drawn up by the Corporate Governance Committee of the Borsa Italiana (available at [www.borsaitaliana.it](http://www.borsaitaliana.it)), to which the Company adheres, the Remuneration Committee:

- presents the Board of Directors with proposals for the remuneration of executive directors, (i) for the entire term of office as regards the fixed component and the amount of the variable short-term remuneration, (ii) annually with regard to the short term performance objectives, (iii) from time to time in the event of Senior Executives being involved in incentive measures of a long-term nature;
- holds discussion with the Human Resources and Organization Department, examining the remuneration policy for all managers (and particularly the remuneration policy of key managers with strategic responsibilities) in the context of the Company's overall wage policy, with a view to its presentation to the Board of Directors;
- examines proposals made to the Board of Directors for remuneration plans based on financial instruments;
- assesses the appropriateness, practical application and consistency of the general remuneration policy, particularly with reference to actual business performance, making suggestions and proposals for any corrective measures;
- monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, ascertaining the level of achievement of the Senior Executives' objectives, applying the measurement criteria determined when these objectives were assigned to them;
- reports to the Board of Directors from time to time, at the next available meeting, on the activities carried out;
- is entitled to access the information and departments of the company required for the performance of its tasks, as well as to engage external consultants independently.

According to the procedure for transactions with the Company's related parties, adopted by board resolution of November 4, 2010 (available on the [www.telecomitalia.com](http://www.telecomitalia.com) website, Governance section—Governance System channel), resolutions regarding the remuneration of directors and key managers with strategic responsibilities made in accordance with the remuneration policy submitted for examination by the Shareholders' Meeting, are not considered to be relevant transactions with related parties and are not therefore subject to the Regulations adopted by Consob by means of resolution no. 17221/2010 and subsequent amendments. The tasks assigned to the board committee by the Telecom Italia procedure are in this case performed by the Committee.

For further details, see also “—10.1 Corporate Governance—General—Board of Directors—Internal Committees”.

*Audit Committee.* US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

Item 16G. Corporate Governance	Differences In Telecom Italia's Corporate Governance And New York Stock Exchange Corporate Governance Practices
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The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for Telecom Italia, which therefore is exempted from the requirement to have a separate audit committee.

A Rule 303A written affirmation to this end was submitted to the NYSE on April 27, 2011. For further details, see also "10.1 Corporate Governance—General—Board of Directors" and "—10.1 Corporate Governance—General—Board of Auditors".

*Adoption and Disclosure of Corporate Governance Guidelines.* US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the Telecom Italia Group's corporate governance policies can be found on Telecom Italia's website: [www.telecomitalia.com](http://www.telecomitalia.com) under "Governance".

*Code of business conduct and ethics.* NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or of laws and regulations.

Telecom Italia has adopted such a Code. See also below under "—16.1.2 General—Code of Ethics and Conduct".

*Annual Certification by The Chief Executive Officer.* A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, Telecom Italia submitted its foreign private issuer annual written affirmation on April 15, 2009.

## Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

Item 17. Financial Statements	
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**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

## Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

## Item 19. FINANCIAL STATEMENTS AND EXHIBITS

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### (b) Exhibits

1.1 Bylaws of the Company.

2.1 Deposit Agreements.

(a) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and the holders from time to time of American Depositary Receipts representing Ordinary Shares of the Company.(1)

(b) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and holders from time to time of American depositary Receipts representing Savings shares of the Company.(2)

2.2 Trust deed dated January 23, 2004, between Telecom Italia (as Issuer and Guarantor), Telecom Italia Finance (as Issuer) and J.P. Morgan Corporate Trustee Services Limited relating to a 10 billion euros Medium Term Note Program. We hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.(3)

4.2 Stock Option Plans

(a) Top 2008 Plan—Stock Option Plan reserved to the Chairman and the Chief Executive Officer of Telecom Italia S.p.A.(4)

(b) Performance Share Granting 2008.(5)

(c) Long Term Incentive Plan 2010-2015.(6)

(d) 2010-2014 broad-based employee share ownership plan.(6)

(e) Long Term Incentive Plan 2011.

7.1 Statement explaining computation of ratio of "Earnings to fixed charges" under IFRS.

8.1 List of Subsidiaries.(7)

12(a) Certification by the Executive Chairman of Telecom Italia S.p.A.

Item 19. Financial Statements and Exhibits	
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12(b) Certification by the Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.

12(c) Certification by the Head of Administration, Finance and Control and International Development of Telecom Italia S.p.A.

13.1 Section 906 Certification submitted for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

- (1) Incorporated by reference to exhibit (a) filed with Olivetti's Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107144).
- (2) Incorporated by reference to exhibit (a) filed with Olivetti's Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107142).
- (3) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).
- (4) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on May 8, 2008 (File No. 001-13882).
- (5) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on April 10, 2009 (File No. 001-13882).
- (6) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on April 11, 2011 (File No. 001-13882).
- (7) Please see "Note—List of Companies of the Telecom Italia Group" of the Notes to the Consolidated Financial Statements included elsewhere herein.

Item 19. Financial Statements and Exhibits	
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## SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

## TELECOM ITALIA S.p.A

By:                     /s/                    FRANCO BERNABÈ                      
Name: **Franco Bernabè**  
Title: **Executive Chairman**

Dated May 14, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Telecom Italia S.p.A.

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telecom Italia S.p.A. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing in Item 15.2 of the 2011 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers S.p.A.

Rome, Italy  
May 14, 2012

Consolidated Financial Statements	Consolidated Statements Of Financial Position
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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2011  
AND 2010—ASSETS**

	Note	As of December 31, 2011	As of December 31, 2010
		(millions of euros)	
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill .....	4	36,957	43,923
Other intangible assets .....	5	8,600	7,936
		<u>45,557</u>	<u>51,859</u>
<b>Tangible assets</b> .....	6		
Property, plant and equipment owned .....		14,854	15,238
Assets held under finance leases .....		1,094	1,177
		<u>15,948</u>	<u>16,415</u>
<b>Other non-current assets</b>			
Investments in associates and joint ventures accounted for using the equity method .....	7	47	85
Other investments .....	8	38	43
Non-current financial assets .....	9	2,949	1,863
Miscellaneous receivables and other non-current assets .....	10	1,128	934
Deferred tax assets .....	11	1,637	1,863
		<u>5,799</u>	<u>4,788</u>
<b>TOTAL NON-CURRENT ASSETS (A)</b> .....		<u>67,304</u>	<u>73,062</u>
<b>CURRENT ASSETS</b>			
Inventories .....	12	447	387
Trade and miscellaneous receivables and other current assets .....	13	7,770	7,790
Current income tax receivables .....	11	155	132
Current financial assets .....	9		
Securities other than investments, financial receivables and other current financial assets .....		1,469	1,754
Cash and cash equivalents .....		6,714	5,526
		<u>8,183</u>	<u>7,280</u>
<b>Current assets sub-total</b> .....		<u>16,555</u>	<u>15,589</u>
<b>Discontinued operations/Non-current assets held for sale</b>			
—of a financial nature .....		—	—
—of a non-financial nature .....		—	389
		<u>—</u>	<u>389</u>
<b>TOTAL CURRENT ASSETS (B)</b> .....		<u>16,555</u>	<u>15,978</u>
<b>TOTAL ASSETS (A + B)</b> .....		<u>83,859</u>	<u>89,040</u>

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Financial Statements	Consolidated Statements Of Financial Position
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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2011  
AND 2010—EQUITY AND LIABILITIES**

	Note	As of December 31, 2011	As of December 31, 2010
		(millions of euros)	
<b>EQUITY</b> .....	14		
Share capital issued .....		10,693	10,689
Less: treasury shares .....		(89)	(89)
Share capital .....		10,604	10,600
Paid-in capital .....		1,704	1,697
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .....		10,483	16,522
<b>Equity attributable to owners of the Parent</b> .....		<b>22,791</b>	<b>28,819</b>
<b>Non-controlling interests</b> .....		<b>3,904</b>	<b>3,736</b>
<b>TOTAL EQUITY (A)</b> .....		<b>26,695</b>	<b>32,555</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current financial liabilities .....	15	35,860	34,348
Employee benefits .....	19	850	1,129
Deferred tax liabilities .....	11	1,056	991
Provisions .....	20	831	860
Miscellaneous payables and other non-current liabilities .....	21	1,156	1,086
<b>TOTAL NON-CURRENT LIABILITIES (B)</b> .....		<b>39,753</b>	<b>38,414</b>
<b>CURRENT LIABILITIES</b>			
Current financial liabilities .....	15	6,091	6,882
Trade and miscellaneous payables and other current liabilities .....	22	10,984	10,954
Current income tax payables .....	11	336	235
<b>Current liabilities sub-total</b> .....		<b>17,411</b>	<b>18,071</b>
<b>Liabilities directly associated with Discontinued operations/ Non-current assets held for sale</b>			
—of a financial nature .....		—	—
—of a non-financial nature .....		—	—
		—	—
<b>TOTAL CURRENT LIABILITIES (C)</b> .....		<b>17,411</b>	<b>18,071</b>
<b>TOTAL LIABILITIES (D = B + C)</b> .....		<b>57,164</b>	<b>56,485</b>
<b>TOTAL EQUITY AND LIABILITIES (A + D)</b> .....		<b>83,859</b>	<b>89,040</b>

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Financial Statements	Separate Consolidated Income Statements
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**SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

	Note	Year ended December 31,		
		2011	2010	2009
		(millions of euros)		
Revenues .....	24	29,957	27,571	26,894
Other income .....	25	299	255	280
<b>Total operating revenues and other income .....</b>		<b>30,256</b>	<b>27,826</b>	<b>27,174</b>
Acquisition of goods and services .....	26	(12,859)	(11,383)	(11,480)
Employee benefits expenses .....	27	(3,917)	(4,021)	(3,734)
Other operating expenses .....	28	(1,859)	(1,422)	(1,345)
Changes in inventories .....		56	(135)	(15)
Internally generated assets .....	29	569	547	515
Depreciation and amortization .....	30	(5,494)	(5,542)	(5,551)
Gains (losses) on disposals of non-current assets .....	31	3	11	(59)
Impairment reversals (losses) on non-current assets .....	32	(7,358)	(63)	(12)
<b>Operating profit (loss) .....</b>		<b>(603)</b>	<b>5,818</b>	<b>5,493</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method .....	7	(39)	99	67
Other income (expenses) from investments .....	33	16	289	(51)
Finance income .....	34	2,464	3,081	2,561
Finance expenses .....	34	(4,462)	(5,155)	(4,731)
<b>Profit (loss) before tax from continuing operations .....</b>		<b>(2,624)</b>	<b>4,132</b>	<b>3,339</b>
Income tax expense .....		(1,643)	(550)	(1,121)
<b>Profit (loss) from continuing operations .....</b>		<b>(4,267)</b>	<b>3,582</b>	<b>2,218</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale .....		(13)	(7)	(622)
<b>Profit (loss) for the year .....</b>	35	<b>(4,280)</b>	<b>3,575</b>	<b>1,596</b>
<i>Attributable to:</i>				
• Owners of the Parent .....		(4,726)	3,121	1,581
• Non-controlling interests .....		446	454	15
		Year ended December 31,		
		2011	2010	2009
		(Euros)		
<b>Basic and Diluted Earnings Per Share (EPS)(*) .....</b>	36			
—Ordinary Share .....		(0.24)	0.16	0.08
—Savings Share .....		(0.24)	0.17	0.09
<i>Of which:</i>				
—From continuing operations				
—Ordinary Share .....		(0.24)	0.16	0.11
—Savings Share .....		(0.24)	0.17	0.12
—From Discontinued operations/Non-current assets held for sale				
—Ordinary Share .....		—	—	(0.03)
—Savings Share .....		—	—	(0.03)

(\*) Basic EPS is equal to Diluted EPS.

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Financial Statements	Consolidated Statements Of Comprehensive Income
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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31,  
2011, 2010 AND 2009 (see Note 14)**

		Year ended December 31,		
		2011	2010	2009
		(millions of euros)		
<b>Profit (loss) for the year</b> .....	<b>(A)</b>	<b>(4,280)</b>	<b>3,575</b>	<b>1,596</b>
<b>Other components of the Statement of Comprehensive Income:</b>				
• <b>Available-for-sale financial assets</b>				
– Profit (loss) from fair value adjustments .....		5	(7)	14
– Loss (profit) transferred to the Separate Consolidated Income Statement .....		2	5	—
– Income tax expense .....		(4)	(1)	4
	<b>(B)</b>	<b>3</b>	<b>(3)</b>	<b>18</b>
• <b>Hedging instruments:</b>				
– Profit (loss) from fair value adjustments .....		523	767	(1,504)
– Loss (profit) transferred to the Separate Consolidated Income Statement .....		(230)	(480)	206
– Income tax expense .....		(83)	(77)	363
	<b>(C)</b>	<b>210</b>	<b>210</b>	<b>(935)</b>
• <b>Exchange differences on translating foreign operations:</b>				
– Profit (loss) on translating foreign operations .....		(613)	659	964
– Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement .....		75	18	—
– Income tax expense .....		—	—	—
	<b>(D)</b>	<b>(538)</b>	<b>677</b>	<b>964</b>
• <b>Share of other profits (losses) of associates and joint ventures accounted for using the equity method:</b>				
– Profit (loss) .....		—	109	(71)
– Loss (profit) transferred to the Separate Consolidated Income Statement .....		—	—	—
– Income tax expense .....		—	—	—
	<b>(E)</b>	<b>—</b>	<b>109</b>	<b>(71)</b>
<b>Total</b> .....	<b>(F = B + C + D + E)</b>	<b>(325)</b>	<b>993</b>	<b>(24)</b>
<b>Total profit (loss) for the year</b> .....	<b>(A + F)</b>	<b>(4,605)</b>	<b>4,568</b>	<b>1,572</b>
<i>Attributable to:</i>				
• <i>Owners of the Parent</i> .....		<i>(4,825)</i>	<i>3,855</i>	<i>1,321</i>
• <i>Non-controlling interests</i> .....		<i>220</i>	<i>713</i>	<i>251</i>

The accompanying notes are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED  
DECEMBER 31, 2011, 2010 AND 2009**

● **CHANGES IN EQUITY IN 2009 (see Note 14)**

	Share capital	Paid-in capital	Fair value adjustments on available-for-sale financial assets	Fair value adjustments on hedging instruments	Exchange differences on translating foreign operations	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent	Equity attributable to Non-controlling interests	Total equity
	(a)	(b)	(c)	(d)	(e)	(f) (millions of euros)	(g)	(h=a+b+c+d+e +f+g)	(i)	(h+i)
<b>Balance at December 31, 2008</b> .....	<b>10,591</b>	<b>1,689</b>	<b>(22)</b>	<b>441</b>	<b>255</b>	<b>(39)</b>	<b>12,683</b>	<b>25,598</b>	<b>730</b>	<b>26,328</b>
<b>Changes in equity in the year ended December 31, 2009:</b>										
● Dividends approved .....	—	—	—	—	—	—	(1,029)	(1,029)	(24)	(1,053)
● Changes in ownership interests in subsidiaries that do not result in a loss of control .....	—	—	—	—	—	—	(110)	(110)	110	—
● Total comprehensive income (loss) for the year .....	—	—	18	(935)	728	(71)	1,581	1,321	251	1,572
● Grant of equity instruments .....	—	—	—	—	—	—	2	2	—	2
● Treasury shares .....	(6)	—	—	—	—	—	(5)	(11)	—	(11)
● Changes in the scope of consolidation .....	—	—	—	—	—	—	196	196	99	295
● Other changes .....	—	—	—	—	—	—	(15)	(15)	2	(13)
<b>Balance at December 31, 2009</b> .....	<b>10,585</b>	<b>1,689</b>	<b>(4)</b>	<b>(494)</b>	<b>983</b>	<b>(110)</b>	<b>13,303</b>	<b>25,952</b>	<b>1,168</b>	<b>27,120</b>

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The accompanying notes are an integral part of these consolidated financial statements



Consolidated Financial Statements	Consolidated Statements Of Changes In Equity
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● CHANGES IN EQUITY IN 2010 (see Note 14)

	Share capital	Paid-in capital	Fair value adjustments on available-for-sale financial assets	Fair value adjustments on hedging instruments	Exchange differences on translating foreign operations	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent	Equity attributable to Non-controlling interests	Total equity
	(a)	(b)	(c)	(d)	(e)	(f) (millions of euros)	(g)	(h = a + b + c + d + e + f + g)	(i)	(h + i)
<b>Balance at December 31, 2009 .....</b>	<b>10,585</b>	<b>1,689</b>	<b>(4)</b>	<b>(494)</b>	<b>983</b>	<b>(110)</b>	<b>13,303</b>	<b>25,952</b>	<b>1,168</b>	<b>27,120</b>
<b>Changes in equity in the year ended December 31, 2010:</b>										
● Dividends approved .....	—	—	—	—	—	—	(1,029)	(1,029)	(135)	(1,164)
● Total comprehensive income (loss) for the year .....	—	—	(3)	210	418	109	3,121	3,855	713	4,568
● Grant of equity instruments .....	15	8	—	—	—	—	9	32	—	32
● Effect of the Telecom Italia Media share capital increase transaction .....	—	—	—	—	—	—	3	3	44	47
● Effect arising from the consolidation of Sofora group (Argentina) (*) .....	—	—	—	—	—	—	—	—	1,948	1,948
● Other changes .....	—	—	—	—	—	—	6	6	(2)	4
<b>Balance at December 31, 2010 .....</b>	<b>10,600</b>	<b>1,697</b>	<b>(7)</b>	<b>(284)</b>	<b>1,401</b>	<b>(1)</b>	<b>15,413</b>	<b>28,819</b>	<b>3,736</b>	<b>32,555</b>

(\*) Analyzed in Note 3.

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Financial Statements	Consolidated Statements Of Changes In Equity
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• CHANGES IN EQUITY IN 2011 (see Note 14)

	Share capital	Paid-in capital	Fair value adjustments on available-for-sale financial assets	Fair value adjustments on hedging instruments	Exchange differences on translating foreign operations	Other gains (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Equity attributable to owners of the Parent	Equity attributable to Non-controlling interests	Total equity
	(a)	(b)	(c)	(d)	(e)	(f) (millions of euros)	(g)	(h = a + b + c + d + e + f + g)	(i)	(h + i)
Balance at December 31, 2010 .....	<u>10,600</u>	<u>1,697</u>	<u>(7)</u>	<u>(284)</u>	<u>1,401</u>	<u>(1)</u>	<u>15,413</u>	<u>28,819</u>	<u>3,736</u>	<u>32,555</u>
Changes in equity in the year ended December 31, 2011:										
• Dividends approved .....	—	—	—	—	—	—	(1,184)	(1,184)	(118)	(1,302)
• Total comprehensive income (loss) for the year .....	—	—	3	210	(312)	—	(4,726)	(4,825)	220	(4,605)
• Grant of equity instruments .....	4	7	—	—	—	—	(4)	7	—	7
• Effect of increase in economic stake in Argentina Business Unit .....	—	—	—	—	—	—	(57)	(57)	(153)	(210)
• Effect of capital operations of Brazil Business Unit companies .....	—	—	—	—	—	—	19	19	221	240
• Other changes .....	—	—	—	—	—	—	12	12	(2)	10
Balance at December 31, 2011 .....	<u>10,604</u>	<u>1,704</u>	<u>(4)</u>	<u>(74)</u>	<u>1,089</u>	<u>(1)</u>	<u>9,473</u>	<u>22,791</u>	<u>3,904</u>	<u>26,695</u>

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The accompanying notes are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2011, 2010 AND 2009**

	Note	Year ended December 31,		
		2011	2010	2009
		(millions of euros)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Profit (loss) from continuing operations .....		(4,267)	3,582	2,218
<i>Adjustments for:</i>				
Depreciation and amortization .....		5,494	5,542	5,551
Impairment losses (reversals) on non-current assets (including investments) ...		7,365	(116)	27
Net change in deferred tax assets and liabilities .....		189	(749)	(48)
Losses (gains) realized on disposals of non-current assets (including investments) .....		(18)	(41)	55
Share of losses (profits) of associates and joint ventures accounted for using the equity method .....		39	(99)	(67)
Change in employee benefits .....		(250)	73	(173)
Change in inventories .....		(36)	96	(30)
Change in trade receivables and net amounts due from customers on construction contracts .....		3	13	336
Change in trade payables .....		(164)	(278)	(995)
Net change in current income tax receivables/payables .....		90	(170)	(1,170)
Net change in miscellaneous receivables/payables and other assets/liabilities ..		67	(980)	(229)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A) .....</b>		<b>8,512</b>	<b>6,873</b>	<b>5,475</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
<i>Purchase of intangible assets on an accrual basis .....</i>	5	(3,066)	(1,781)	(2,017)
<i>Purchase of tangible assets on an accrual basis .....</i>	6	(3,029)	(2,802)	(2,526)
Total purchase of intangible and tangible assets on an accrual basis .....		(6,095)	(4,583)	(4,543)
<i>Change in amounts due to fixed asset suppliers .....</i>		557	103	619
Total purchase of intangible and tangible assets on a cash basis .....		(5,538)	(4,480)	(3,924)
Acquisition of control of subsidiaries or other businesses, net of cash acquired ..		(668)	(4)	—
Net cash and cash equivalents arising from the acquisition of control of the Sofora group—Argentina .....	3	—	392	—
Acquisitions/disposals of other investments .....	8	(1)	35	(6)
Change in financial receivables and other financial assets .....		(580)	502	(692)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of .....		51	180	(13)
Proceeds from sale/repayments of intangible, tangible and other non-current assets .....		435	56	66
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B) .....</b>		<b>(6,301)</b>	<b>(3,319)</b>	<b>(4,569)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Change in current financial liabilities and other .....		1,351	957	(1,123)
Proceeds from non-current financial liabilities (including current portion) .....		4,523	2,007	5,563
Repayments of non-current financial liabilities (including current portion) .....		(5,290)	(5,842)	(4,260)
Consideration paid for equity instruments .....		—	—	(11)
Share capital proceeds/Reimbursements (including subsidiaries) .....		240	67	—
Dividends paid .....		(1,326)	(1,093)	(1,050)
Changes in ownership interests in consolidated subsidiaries .....		(211)	—	—
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C) .....</b>		<b>(713)</b>	<b>(3,904)</b>	<b>(881)</b>
<b>CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/ NON-CURRENT ASSETS HELD FOR SALE (D) .....</b>		<b>—</b>	<b>—</b>	<b>61</b>
<b>AGGREGATE CASH FLOWS (E=A+B+C+D) .....</b>		<b>1,498</b>	<b>(350)</b>	<b>86</b>
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F) ....</b>		<b>5,282</b>	<b>5,484</b>	<b>5,226</b>
Net foreign exchange differences on net cash and cash equivalents (G) .....		(110)	148	172
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G) .....</b>		<b>6,670</b>	<b>5,282</b>	<b>5,484</b>

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Financial Statements	Consolidated Statements Of Cash Flows
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**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR  
THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>ADDITIONAL CASH FLOW INFORMATION:</b>			
Income taxes (paid) received .....	(1,381)	(1,392)	(2,301)
Interest expense paid .....	(3,044)	(3,079)	(3,250)
Interest income received .....	1,332	1,176	1,025
Dividends received .....	2	3	4
<b>ANALYSIS OF NET CASH AND CASH EQUIVALENTS:</b>			
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:</b>			
● Cash and cash equivalents—from continuing operations .....	5,526	5,504	5,396
● Bank overdrafts repayable on demand—from continuing operations .....	(244)	(101)	(190)
● Cash and cash equivalents—from Discontinued operations/Non-current assets held for sale .....	—	81	20
● Bank overdrafts repayable on demand—from Discontinued operations/Non-current assets held for sale .....	—	—	—
	<u>5,282</u>	<u>5,484</u>	<u>5,226</u>
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:</b>			
● Cash and cash equivalents—from continuing operations .....	6,714	5,526	5,504
● Bank overdrafts repayable on demand—from continuing operations .....	(44)	(244)	(101)
● Cash and cash equivalents—from Discontinued operations/Non-current assets held for sale .....	—	—	81
● Bank overdrafts repayable on demand—from Discontinued operations/Non-current assets held for sale .....	—	—	—
	<u>6,670</u>	<u>5,282</u>	<u>5,484</u>

The accompanying notes are an integral part of these consolidated financial statements

## NOTE 1—FORM, CONTENT AND OTHER GENERAL INFORMATION

### FORM AND CONTENT

Telecom Italia (the “**Parent**”) and its subsidiaries form the “**Telecom Italia Group**” or the “**Group**”. Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, Telecom Italia, are located in Milan at Piazza degli Affari 2, Italy.

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

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

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

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2011 have been prepared on a going concern basis (for further details see Note “Accounting policies”) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (designated as “**IFRS**”).

In 2011, the Group applied the accounting policies on a basis consistent with those of the previous years and did not elect the early adoption of any IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In accordance with IAS 1 (*Presentation of Financial Statements*) comparative information included in the consolidated financial statements are, unless otherwise indicated, those of the preceding two years.

The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2011 was approved by resolution of the board of directors’ meeting held on March 29, 2012.

### FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to “current and non-current” criterion;
- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;
- the **consolidated statement of comprehensive income** includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;
- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the “indirect method”, as permitted by IAS 7 (*Statement of Cash Flows*).

Consolidated Financial Statements	Notes To Consolidated Financial Statements
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## SEGMENT REPORTING

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources (for Telecom Italia the Board of Directors) to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic, Brazil and Argentina) and according to the specific businesses for the other segments.

The term "operating segment" is considered synonymous with "Business Unit". The operating segments of the Telecom Italia Group are as follows:

- **Domestic:** includes operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the relative support activities in Italy;
- **Brazil:** includes mobile (TIM Celular) and fixed (Intelig, TIM Fiber SP and TIM Fiber RJ) telecommunications operations in Brazil;
- **Argentina:** includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;
- **Media:** includes television network operations and management;
- **Olivetti:** includes activities for the manufacture of digital printing systems and office products and Information Technology services;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

## SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2011 compared to December 31, 2010 are listed below.

### ● Entry of companies in the scope of consolidation:

<u>Company</u>		<u>Business Unit</u>	<u>Month</u>
ADVANCED CARING CENTER S.r.l.	new company	Olivetti	November 2011
TIM FIBER RJ S.A.	new acquisition	Brazil	October 2011
TIM FIBER SP Ltda	new acquisition	Brazil	October 2011
TIERRA ARGENTEA SA (formerly INVERSIONES MILANO)	new acquisition	Other operations	August 2011
4G HOLDING S.p.A.	new acquisition	Domestic	July 2011
4G RETAIL S.r.l.	new acquisition	Domestic	July 2011
FLAGSHIP STORE FIRENZE 1 S.r.l.	new company	Domestic	April 2011
FLAGSHIP STORE VERONA 1 S.r.l.	new company	Domestic	April 2011
FLAGSHIP STORE SANREMO 1 S.r.l.	new company	Domestic	January 2011

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● **Exit of companies from the scope of consolidation:**

<u>Company</u>		<u>Business Unit</u>	<u>Month</u>
ETI—EURO TELECOM INTERNATIONAL N.V.	liquidated	Other operations	December 2011
ICH—INTERNATIONAL COMMUNICATION HOLDING N.V.	liquidated	Other operations	December 2011
LOQUENDO S.p.A.	sold	Domestic	September 2011

● **Merger of companies:**

<u>Company</u>		<u>Business Unit</u>	<u>Month</u>
TELECOM ITALIA SPARKLE LUXEMBOURG S.A.	merged in Telecom Italia Sparkle S.p.A.	Domestic	January 2011
TI UNITED KINGDOM Ltd	merged in Telecom Italia Sparkle S.p.A.	Domestic	January 2011

A breakdown by number of the subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2011 and December 31, 2010 is as follows:

	<b>December 31, 2011</b>		
	<u>Italy</u>	<u>Abroad</u>	<u>Total</u>
<b>Companies</b>			
subsidiaries consolidated line-by-line .....	45	67	112
joint ventures accounted for using the equity method .....	1	—	1
associates accounted for using the equity method .....	15	—	15
<b>Total companies</b> .....	<b>61</b>	<b>67</b>	<b>128</b>
	<b>December 31, 2010</b>		
	<u>Italy</u>	<u>Abroad</u>	<u>Total</u>
<b>Companies</b>			
subsidiaries consolidated line-by-line .....	40	68	108
joint ventures accounted for using the equity method .....	1	—	1
associates accounted for using the equity method .....	15	2	17
<b>Total companies</b> .....	<b>56</b>	<b>70</b>	<b>126</b>

Further details are provided in Note “*List of companies of the Telecom Italia Group*”.

## NOTE 2—ACCOUNTING POLICIES

● **Going concern**

The consolidated financial statements for the year ended December 31, 2011 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate doubts as to the Group’s ability to continue as a going concern:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - changes in the general macroeconomic condition in the Italian and South American markets;
  - variations in business conditions;
  - changes to laws and regulations (price and rate variations);
  - outcomes of disputes and litigations with regulatory authorities, competitors and other parties;



Consolidated Financial Statements	Notes To Consolidated Financial Statements
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- financial risks (interest rate and/or exchange rate trends);
- the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital, described in the paragraph "Share capital information" under the Note "Equity";
- the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note "Financial risk management".

#### ● Accounting policies and principles of consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries' financial statements coincides with that of the Parent.

Control exists when the Parent, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Under IAS 27, the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated on consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the balance sheet date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or at the loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

Consolidated Financial Statements	Notes To Consolidated Financial Statements
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In particular, under the equity method the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

The consolidated financial statements include the Group's share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstances cease. When the Group's share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group's statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

Under IAS 27, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

## ● Intangible assets

### *Goodwill*

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

- a) the aggregate of:
  - the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);
  - the amount of any non-controlling interest in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets;
  - in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;
- b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;
- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets—Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (Business Combinations) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

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#### *Other intangible assets with an indefinite useful life*

Intangible assets with an indefinite useful life are not amortized systematically. Instead, they undergo impairment testing at least annually.

#### *Development costs*

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process of new products and services and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

#### *Other intangible assets with a finite useful life*

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

#### ● **Tangible assets**

##### *Property plant and equipment owned*

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized when the obligation arises in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

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The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its, carrying amount. The excess if any, should be recorded immediately in separate consolidated income statement, conventionally under the line item Depreciation.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

#### *Assets held under finance leases*

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

#### ● **Capitalized borrowing costs**

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the "finance expense" line item to which they relate.

#### ● **Impairment of intangible and tangible assets**

##### *Goodwill*

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

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

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To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon of three years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

#### *Intangible and tangible assets with a finite useful life*

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

## ● Financial instruments

### *Other investments*

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- "available-for-sale financial assets", as non-current or current assets;
- "financial assets at fair value through profit or loss", as current assets held for trading.

Other investments classified as "available-for-sale financial assets" are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

Other unlisted investments classified as "available-for-sale financial assets" whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as "available-for-sale financial assets" are not reversed.

Changes in the value of other investments classified as "financial assets at fair value through profit or loss" are recognized directly in the separate consolidated income statement.

### *Securities other than investments*

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

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When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as “available-for-sale financial assets” no longer exist, the impairment losses are reversed.

#### *Receivables and loans*

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

#### *Cash and cash equivalents*

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

#### *Impairment of financial assets*

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statement for financial assets measured at cost or amortized cost; for “available-for-sale financial assets” reference should be made to the accounting policy reported previously.

#### *Financial liabilities*

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

#### *Derivatives*

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) its effectiveness can be reliably measured;
- d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.



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When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- **Fair value hedge**—Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statement.
- **Cash flow hedge**—Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate consolidated income statement.

- **Sales of receivables**

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

- **Amounts due from customers on construction contracts**

Amounts due from customers under construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statement when they become known.

- **Inventories**

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

- **Non-current assets held for sale/Discontinued operations**

Non-current assets or disposal groups whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately in the statement of financial position from other assets and liabilities. The corresponding amounts for the previous period are not reclassified.

An operating asset sold (Discontinued Operations) is a component of an entity that has been divested or classified as held for sale and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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The results arising from Discontinued Operations—whether disposed of or classified as held for sale—are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets or disposal groups classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets or disposal groups classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

## ● Employee benefits

### *Provision for employee severance indemnity*

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a "Defined benefit plan" and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations. As allowed by IAS 19, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the separate consolidated income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the separate consolidated income statement under "Employee benefits expenses".

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the "Treasury fund" managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a "Defined contribution plan" whereas the amounts recorded in the provision for employee severance indemnities retain the nature of a "Defined benefit plan".

### *Equity compensation plans*

The companies of the Group provide additional benefits to certain managers and employees of the Group through equity compensation plans (stock options, long-term incentive plans and broad-based employee share ownership plan). The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in "Employee benefits expenses" over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated "Other equity instruments". Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from "Other equity instruments" with a contra-entry to "Employee benefits expenses".

For the plans subject to vesting conditions, when such conditions are not met, the amount recognized in "Other equity instruments" must be reclassified to "Other reserves".

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For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to "Employee benefits expenses"; at the end of each year such liability is measured at fair value.

### ● Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as "Finance expenses".

### ● Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from "Other reserves and retained earnings (accumulated losses), including profit (loss) for the year".

### ● Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

### ● Revenues

Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

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

#### *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.

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

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#### *Revenues from sales and bundled offerings*

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

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

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

#### *Revenues on construction contracts*

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

- **Research costs and advertising expenses**

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.

- **Finance income and expenses**

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

- **Dividends**

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable following the resolution by the shareholders' meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

- **Taxes**

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the Statement of comprehensive income the amount of income taxes relating to each item included as "Other components of the Statement of comprehensive income" is indicated.

The income tax expense that could arise on the remittance of a subsidiary's retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the "Balance sheet liability method". They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to

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investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in "Other operating expenses".

### ● Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

### ● Use of estimates

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

<u>Financial statement line item/area</u>	<u>Accounting estimates</u>
<b>Goodwill</b>	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note "Goodwill".
<b>Business combinations</b>	The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.
<b>Bad debt provision</b>	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
<b>Depreciation and amortization expense</b>	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

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**Financial statement  
line item/area**

**Accounting estimates**

**Accruals, contingent liabilities and employee benefits**

As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.

The accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.

Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.

**Revenues**

Revenue recognition is influenced by:

- the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs);
- the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

**Income taxes**

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

**Derivative instruments and equity instruments**

The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

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

● **New Standards and Interpretations issued by IASB and in force from January 1, 2011**

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the following new principles and interpretations (amendments and improvements included), in force from January 1, 2011, govern situations that do not exist within the Group at the date of this consolidated annual report, but may affect the accounting for future transactions or agreements:

- Amendments to IAS 32 (*Classification of Rights Issues*);
- IAS 24 (*Related Party Disclosures*);
- Amendments to IFRIC 14 (*Prepayments of a Minimum Funding Requirement*);
- IFRIC 19 (*Extinguishing Financial Liabilities with Equity Instruments*);
- Improvements to IFRSs (issued by IASB in 2010).

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- **New Standards and Interpretations issued by IASB not yet in force**

At the date of preparation of the accompanying consolidated financial statements, the following IFRS, Amendments and IFRIC interpretations had been published, but their application was not mandatory:

<u>IASB/IFRIC documents</u>	<u>Mandatory application: annual periods beginning on or after</u>
Amendments to IFRS 7 ( <i>Disclosures—Transfers of Financial Assets</i> )	January 1, 2012
Amendments to IAS 12 ( <i>Income Taxes</i> )	January 1, 2012
Amendments to IAS 1 ( <i>Presentation of Financial Statements</i> )	July 1, 2012
IFRS 9 ( <i>Financial Instruments</i> )	January 1, 2015
IFRS 10 ( <i>Consolidated financial statements</i> )	January 1, 2013
IFRS 11 ( <i>Joint Arrangements</i> )	January 1, 2013
IFRS 12 ( <i>Disclosure of interests in other entities</i> )	January 1, 2013
IFRS 13 ( <i>Fair value measurement</i> )	January 1, 2013
IAS 27 revised ( <i>Separate Financial Statements</i> )	January 1, 2013
IAS 28 revised ( <i>Investments in associates and joint ventures</i> )	January 1, 2013
Amendments to IAS 19 ( <i>Employee benefits</i> )	January 1, 2013
Amendments to IFRS 7 ( <i>Disclosures—Offsetting Financial Assets and Financial Liabilities</i> )	January 1, 2013
Amendments to IAS 32 ( <i>Offsetting Financial Assets and Financial Liabilities</i> )	January 1, 2014

The applications of Amendments to IFRS 7 (*Disclosures—Transfers of Financial Assets*) and IAS 12 (*Income taxes*) are not expected to have a material impact on the consolidated financial statements.

As regards to the remaining standards, amendments and interpretations reported above, the Group is currently assessing the impact of their application.

## **NOTE 3—BUSINESS COMBINATIONS**

### **YEAR 2011**

#### ***Acquisition of the 4GHolding group (4GH)***

On July 27, 2011, Telecom Italia, after having received authorization from the Antitrust Authority, finalized the acquisition of a 71% interest in the company 4G Holding S.p.A., which in turn holds a 100% interest in 4G Retail S.r.l. The acquisition had a total impact on net financial debt of 27.4 million euros as a result of the outlay of about 8.6 million euros (including incidental expenses) and the consolidation of the financial debt of the acquired companies. The transaction was carried out through TLC Commercial Services S.r.l., a wholly-owned subsidiary of the Parent.

The acquisition of the 4G Holding group, with its approximate 200 points-of-sale located in the most important shopping malls in Italy, will enable Telecom Italia to reinforce its position in the retail distribution market specialized in the sale of telephony equipment and broaden its nationwide presence.

In view of the reciprocal commitments undertaken by the Telecom Italia Group and the actual sole minority shareholder, Gir S.r.l., as regards the future transfer of the shares held by the latter, the accounting effects of the business combination have been calculated based on an economic interest of 100% in the 4GH group and as set forth in IFRS 3, which can be summarized as follows:

- the measurement of the interest acquired is equal to 16 million euros and is inclusive of the measurement of the future acquisition of the interest held by the minority shareholder;



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- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value. During the course of 2012—and in any case within 12 months of the acquisition—the provisional amounts of the assets and liabilities recorded at the acquisition date could be adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts of the assets acquired and liabilities assumed, goodwill of 16 million euros, was recognized, calculated as illustrated in the following table:

		<u>Fair Value amounts</u> (millions of euros)
Measurement of consideration .....	(A)	16
Value of assets acquired .....	(B)	67
Value of liabilities assumed .....	(C)	<u>(67)</u>
<b>Goodwill</b> .....	<b>(A-B-C)</b>	<b><u>16</u></b>

The most important acquisition-date amounts of the assets and liabilities of the 4GH group are summarized as follows:

*4GH group—acquisition-date amounts*

		<u>Fair Value amounts</u> (millions of euros)	<u>Carrying amounts</u>
Goodwill deriving from business combinations .....		16	—
Other non-current assets .....		22	29
Current assets .....		<u>45</u>	<u>45</u>
<b>Total assets</b> .....	<b>(A)</b>	<b>83</b>	<b>74</b>
Total non-current liabilities .....		12	5
Total current liabilities .....		<u>55</u>	<u>55</u>
<b>Total liabilities</b> .....	<b>(B)</b>	<b><u>67</u></b>	<b><u>60</u></b>
<b>Net assets</b> .....	<b>(A-B)</b>	<b><u>16</u></b>	<b><u>14</u></b>

Had the acquisition been finalized on January 1, 2011, higher revenues of about 30 million euros would have been recorded in the consolidated financial statements of the Telecom Italia Group without any significant effects on the net loss for the year.

***Acquisition of Tim Fiber SP and Tim Fiber RJ***

On October 31, 2011, through the subsidiary Tim Celular S.A., telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro were acquired from Companhia Brasileira de Energia and the companies were renamed Tim Fiber SP and Tim Fiber RJ. The acquisition had a total impact on net financial debt of 686 million euros as a result of the outlay of about 656 million euros (including transactions costs) and the consolidation of the financial debt of the acquired companies.

With this acquisition TIM Brasil is aiming, among other things, to i) reinforce the development of its mobile network also in order to extend and accelerate its mobile broadband services; ii) benefit from the synergies arising from the internalization of the AES' access infrastructure.

As a result of this transaction, a 100% interest has been acquired in the company Tim Fiber SP and a 98.3% interest, subsequently increased to 99.1%, in the company Tim Fiber RJ. A tender offer was made to purchase the remaining 0.9% of the latter which was concluded at the end of February 2012 and brought the percentage interest to 99.7%. The accounting effects of the business combination have been calculated based on 100% ownership, quantified on a provisional basis, as set forth in IFRS 3, and can be summarized as follows:

- the measurement of the consideration for both companies is equal to 657 million euros and is inclusive of the non-controlling interest which is in the process of being acquired;

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- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value. During the course of 2012—and in any case within 12 months of acquisition—the provisional amounts of the assets and liabilities recorded at the acquisition date could be adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts of the assets acquired and liabilities assumed, total goodwill of 556 million euros was recognized, calculated as illustrated in the following table:

		Tim Fiber SP Fair Value amounts	Tim Fiber RJ Fair Value amounts	Total
		(millions of euros)		
Measurement of consideration .....	(A)	461	196	657
Value of net assets acquired .....	(B)	53	48	101
<b>Goodwill</b> .....	<b>(A-B)</b>	<b>408</b>	<b>148</b>	<b>556</b>

The most important acquisition-date amounts of the assets and liabilities of the companies Tim Fiber SP and Tim Fiber RJ are summarized as follows:

***Tim Fiber SP and Tim Fiber RJ—acquisition-date amounts***

		Tim Fiber SP Fair Value amounts	Tim Fiber SP Carrying amounts	Tim Fiber RJ Fair Value amounts	Tim Fiber RJ Carrying amounts
		(millions of euros)			
Goodwill arising from the business combinations .....		408	—	148	—
Other non-current assets .....		77	77	54	54
Current assets .....		23	23	16	16
<b>Total assets</b> .....	<b>(A)</b>	<b>508</b>	<b>100</b>	<b>218</b>	<b>70</b>
Total non-current liabilities .....		32	32	10	10
Total current liabilities .....		15	15	12	12
<b>Total liabilities</b> .....	<b>(B)</b>	<b>47</b>	<b>47</b>	<b>22</b>	<b>22</b>
<b>Net assets</b> .....	<b>(A-B)</b>	<b>461</b>	<b>53</b>	<b>196</b>	<b>48</b>

Had the acquisition been finalized on January 1, 2011, higher revenues of about 60 million euros would have been recorded in the consolidated financial statements of the Telecom Italia Group without any significant effects on the net loss for the year.

## YEAR 2010

### ***Acquisition of control of Sofora Telecomunicaciones S.A.***

On October 13, 2010, once the necessary government authorizations were obtained, an agreement was formalized for the transfer of an 8% interest in Sofora Telecomunicaciones S.A. ("Sofora")—the holding company which controls Telecom Argentina—from the Wertheim group to Telecom Italia International, as established in the agreements signed between the Telecom Italia Group and the Wertheim group on August 5, 2010.

The accounting effects of the business combination, as set forth in IFRS 3, can be summarized as follows:

- the measurement of the interest acquired is equal to 130 million euros and corresponds to the fair value of the options relinquished by the Telecom Italia Group. Such measurement also includes the control premium;
- the interest held in the Sofora group before acquisition of control, previously accounted for using the equity method, was remeasured at fair value at the acquisition date of control and the value came to about 394 million euros. This remeasurement produced a positive impact on the 2010 separate consolidated income statement of 266 million euros, net of the reversal in the separate consolidated income statement of the reserve for negative exchange differences;

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- all the assets acquired and liabilities assumed were measured for their recognition at fair value. During the course of 2011 the provisional amounts of the assets and liabilities recorded at the acquisition date were adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts allocated to the assets acquired and the liabilities assumed, goodwill was recognized for 177 million euros, calculated as illustrated in the following table:

	Final fair value amounts as determined in 2011	Provisional amounts (2010 Financial Statements)	Change
	(millions of euros)		
Measurement of interest acquired .....	130	130	—
Fair value of interest held in the Sofora group before acquisition of control .....	394	394	—
Amounts of net assets allocated to the non-controlling interests .....	1,948	2,003	(55)
<b>Total (a) .....</b>	<b>2,472</b>	<b>2,527</b>	<b>(55)</b>
<b>Net assets acquired (b) .....</b>	<b>2,295</b>	<b>2,361</b>	<b>(66)</b>
<b>Goodwill (a-b) .....</b>	<b>177</b>	<b>166</b>	<b>11</b>

The most important acquisition-date amounts of the assets and liabilities of the Sofora group (Argentina) are summarized as follows:

*Sofora group—acquisition date amounts*

	Final fair value amounts as determined in 2011	Provisional amounts (2010 Financial Statements)	Carrying amounts
	(millions of euros)		
Goodwill .....	177	166	—
Other non-current assets .....	3,546	3,648	1,483
<i>of which Other intangible assets</i> .....	1,840	1,807	214
<i>of which Tangible assets</i> .....	1,688	1,823	1,251
Current assets .....	887	887	873
<i>of which Cash and cash equivalents</i> .....	392	392	392
<b>Total assets (A) .....</b>	<b>4,610</b>	<b>4,701</b>	<b>2,356</b>
Total non-current liabilities .....	1,101	1,137	377
<i>of which Deferred tax liabilities</i> .....	771	807	44
<i>of which Provisions</i> .....	100	100	100
<i>of which Non-current financial liabilities</i> .....	183	183	183
Total current liabilities .....	1,037	1,037	1,035
<i>of which Current financial liabilities</i> .....	216	216	216
<b>Total liabilities (B) .....</b>	<b>2,138</b>	<b>2,174</b>	<b>1,412</b>
<b>Net assets (A-B) .....</b>	<b>2,472</b>	<b>2,527</b>	<b>944</b>
Share of Non-controlling interests .....	1,948	2,003	814
<b>Share of the Telecom Italia Group .....</b>	<b>524</b>	<b>524</b>	<b>130</b>

“Non-controlling interests” have been measured in proportion to the share of the non-controlling interests in the net identifiable assets of the acquired company.

Final allocation of the consideration paid led to lower depreciation and amortization charges of 5 million euros and higher income taxes of 2 million euros in the 2010 separate consolidated income statement.

In 2011, the Telecom Italia Group increased its investment in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones), for a total outlay of 211 million euros (incidental costs included).

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In particular:

- on January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., purchased 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferred B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars (approximately 48 million euros). The ADSs in question represent 117,587.6 *Preferred B* shares (without voting rights). This share package was later transferred to the Argentina subsidiary Tierra Argentea S.A., a wholly-owned subsidiary of the Telecom Italia Group;
- on March 9, 2011, Telecom Italia, through its subsidiary Telecom Italia International N.V., purchased, for a total amount of approximately 104 million euros, a 10% stake in Sofora Telecomunicaciones S.A. from the local partner Wertheim and by so doing increased its investment holding in Sofora from 58% to 68% of the company's share capital;
- on October 27, 2011, Tierra Argentea S.A., purchased 14.48 million Telecom Argentina Class B shares at the price of 20.50 Argentine pesos per share. In the following months of November and December, the company purchased another 1.1 million shares of the same class. The equivalent amount of the transactions was equal in total to 319 million Argentine pesos (about 56 million euros).

The transactions did not alter or modify either the governance rights of the Telecom Argentina group established by agreement between the shareholders signed by the Telecom Italia Group and Wertheim, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

Following these acquisitions, the economic interest of the Telecom Italia Group in Telecom Argentina went from 16.2% at December 31, 2010 to 22.7% at December 31, 2011.

## YEAR 2009

### *Acquisition of Intelig Telecomunicações Ltda*

On December 30, 2009, Tim Participações finalized the acquisition of Intelig Telecomunicações Ltda, the domestic and international Brazilian telecommunications operator for long-distance and data transmission services; the company was consolidated in the Telecom Italia Group as from that date.

Specifically, the acquisition through the merger by incorporation of the parent, which owns 100% of Intelig (Holdco Participações, controlled by JVCO) in Tim Participações, had begun on April 16, 2009 when agreements were sealed between Tim Participações, its parent Tim Brasil and JVCO Participações (controlled by the Docas group and the indirect parent of Intelig Telecomunicações Ltda).

The purchase, through the merger transaction, was finalized on December 30, 2009 by assuming a financial debt of Intelig equal to 68 million U.S. dollars. At the time of the merger, the seller JVCO received shares equal to 5.14% of Tim Participações ordinary and preferred share capital. Moreover, 3% of Docas ordinary shares were transferred to Tim Brasil to guarantee Intelig's financial situation to meet its contingent liabilities.

In the 2010 financial statements, the business combination led to the recognition of goodwill of 84 million euros. This amount was definitively determined during 2010, that is, within 12 months following the operation—calculated as the difference between the market price of the shares issued on behalf of the seller as at December 30, 2009 (295 million euros) and the assets and liabilities acquired and recorded at their fair value at the acquisition date (211 million euros).

In the 2009 financial statements, the provisional amount of goodwill amounted to 96 million euros. As provided by IFRS 3, the amounts relating to this business combination had been recognized provisionally in those financial statements. During 2010, those provisional amounts of assets and liabilities recognized at the acquisition date were adjusted to take into account their fair value at the acquisition date with the consequent remeasurement of the initially recognized amount of goodwill.

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*Intelig Telecomunicações Ltda—acquisition date amounts*

		Final fair value as determined in 2010	Provisional amounts (2009 financial statements)	Carrying amount
		(millions of euros)		
Goodwill .....		84	96	—
Other non-current assets .....		385	272	272
Total current assets .....		116	131	131
<b>Total assets .....</b>	<b>(a)</b>	<b>585</b>	<b>499</b>	<b>403</b>
Total non-current liabilities .....		147	62	62
Total current liabilities .....		143	142	142
<b>Total liabilities .....</b>	<b>(b)</b>	<b>290</b>	<b>204</b>	<b>204</b>
<b>Net assets acquired .....</b>	<b>(a-b)</b>	<b>295</b>	<b>295</b>	<b>199</b>

#### NOTE 4—GOODWILL

Goodwill shows the following breakdown and changes during 2010 and 2011:

	As of December 31, 2009	Increase	Decrease	Impairments	Exchange differences	As of December 31, 2010
				(millions of euros)		
Domestic .....	41,953	—	(6)	—	—	41,947
<i>Core Domestic</i> .....	41,532	—	—	—	—	41,532
<i>International Wholesale</i> .....	421	—	(6)	—	—	415
Brazil .....	1,429	—	—	—	181	1,610
Argentina .....	—	177	—	—	7	184
Media .....	228	—	—	(46)	—	182
Other Operations .....	5	—	(5)	—	—	—
<b>Total .....</b>	<b>43,615</b>	<b>177</b>	<b>(11)</b>	<b>(46)</b>	<b>188</b>	<b>43,923</b>

	As of December 31, 2010	Increase	Decrease	Impairments	Exchange differences	As of December 31, 2011
				(millions of euros)		
Domestic .....	41,947	16	(10)	(7,307)	—	34,646
<i>Core Domestic</i> .....	41,532	16	(10)	(7,307)	—	34,231
<i>International Wholesale</i> .....	415	—	—	—	—	415
Brazil .....	1,610	556	—	—	(156)	2,010
Argentina .....	184	—	—	—	(8)	176
Media .....	182	—	—	(57)	—	125
Other Operations .....	—	—	—	—	—	—
<b>Total .....</b>	<b>43,923</b>	<b>572</b>	<b>(10)</b>	<b>(7,364)</b>	<b>(164)</b>	<b>36,957</b>

The decrease of 6,966 million euros in 2011 includes:

- the impairment charge in 2011 of 7,307 million euros on the goodwill of the Domestic Business Unit, due to the result of the impairment test conducted at June 30, 2011 (impairment loss of 3,182 million euros) and at December 31, 2011 (impairment loss of 4,125 million euros), using the same method adopted in previous impairment tests and particularly comparing the value in use of the Core Domestic Cash-Generating Unit (CGU) with its carrying amount at the same date;
- the goodwill impairment charge of 57 million euros in the Media Business Unit, due to the result of the impairment test at December 31, 2011;

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- the increase of 16 million euros in the Domestic Business Unit, relating to the recognition of provisional goodwill following the acquisition of control and subsequent consolidation of the company 4G Holding S.p.A. The decrease of 10 million euros instead refers to the sale of the subsidiary Loquendo S.p.A. on September 30, 2011;
- the increase of 556 million euros in the Brazil Business Unit, relating to the recognition of provisional goodwill following the acquisition of control and the subsequent consolidation of Tim Fiber RJ and Tim Fiber SP.

As mentioned previously, within the following 12 months, the above business combinations could be adjusted, as set forth in IFRS 3. Further details are provided in the Note "*Business Combinations*".

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units) to December 31, 2011 and 2010 can be summarized as follows:

	As of December 31, 2011			As of December 31, 2010		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
	(millions of euros)					
Domestic .....	42,245	(7,599)	34,646	42,239	(292)	41,947
<i>Core Domestic</i> .....	41,830	(7,599)	34,231	41,824	(292)	41,532
<i>International Wholesale</i> .....	415	—	415	415	—	415
Brazil .....	2,017	(7)	2,010	1,617	(7)	1,610
Argentina .....	176	—	176	184	—	184
Media .....	228	(103)	125	228	(46)	182
Olivetti .....	6	(6)	—	6	(6)	—
Other Operations .....	—	—	—	—	—	—
<b>Total</b> .....	<b>44,672</b>	<b>(7,715)</b>	<b>36,957</b>	<b>44,274</b>	<b>(351)</b>	<b>43,923</b>

Goodwill, under IAS 36, is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

The impairment test is carried out on two levels. At a first level, an estimate is made of the recoverable amount of the individual cash-generating units (or groups of units) to which goodwill is allocated and at a second level the group is considered as a whole. The cash-generating units (or groups of units) to which goodwill was allocated are the following:

<u>Segment</u>	<u>Cash-generating units (or groups of units)</u>
Domestic	Core Domestic International Wholesale
Brazil	Tim Brasil group
Argentina	Sofora group
Media	Telecom Italia Media group

The value used to determine the recoverable amount of the cash-generating units (or groups of units) to which goodwill has been allocated is the value in use for the CGUs of the Domestic, Brazil and Argentina segments; for the Media segment, in the current year, the recoverable amount was determined for each CGU in the segment (MTV, TIMB network operator and TI Media S.p.A.) on the basis of the impairment test applied by the subsidiary, thus fully taking up the impairment losses that arose, in order to better reflect the higher granularity used by Telecom Italia Media in the impairment test carried out in its financial statements.

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As for the four cash-generating units for which the recoverable amount has been estimated on the basis of the value in use, the basic assumptions to which the result is more sensitive are reported in the following table:

Core Domestic	International Wholesale	Brazil	Argentina
EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues)during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan
Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan
Capital expenditures rate (capex/revenues)	Capital expenditures rate (capex/revenues)	Capital expenditures rate (capex/revenues) BRL/euro exchange rate	Capital expenditures rate (capex/revenues) ARS/euro exchange rate
Cost of capital	Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate	Long-term growth rate

The value in use for all the CGUs (Core Domestic, International Wholesale, Brazil and Argentina) is based on the data in the three-year plan approved by the board of directors and communicated to the market.

The nominal growth rates used to estimate the terminal value are the following (the growth rates of Brazil and Argentina refer, respectively, to flows in Brazilian reais and Argentine pesos:

Core Domestic	International Wholesale	Brazil	Argentina
<u>0%</u>	<u>0%</u>	<u>+ 3.13%</u>	<u>+ 9.33%</u>

Such rates fall within the range of growth rates applied by the analysts who follow Telecom Italia stock (as can be seen in the reports published after the presentation of the Group's business plan 2012-2014 and up to March 1, 2012).

The cost of capital was estimated by considering the following:

- the criterion applied was the criterion for the estimate of CAPM—Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);
- in the case of International Wholesale, a “full equity” financial structure was considered since it is representative of the normal financial structure of the business; for the remaining CGUs, a Group target financial structure was assumed in line with the average of the European telephone incumbents, including Telecom Italia itself;
- the Beta coefficient for the Core Domestic CGU and the International Wholesale CGU was arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (Core Domestic CGU beta coefficient = 1.25; International Wholesale CGU = 0.74 (unlevered beta);
- the Beta coefficient for the Brazil CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 0.98);
- the Beta coefficient for the Argentina CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 1.06);
- for the principal operating segments of the Group, reference for comparison purposes was made to the weighted average cost of capital (WACC) identified by the analysts who follow Telecom Italia stock in their reports published after the presentation of the Group's business plan 2012-2014 and up to March 1, 2012.

Since there is a direct correlation between the cost of capital used by the analysts and the long-term growth rate (g) projected to estimate the terminal value, the comparison was also made on the capitalization rates (WACC-g). In particular, the capitalization rate (WACC-g) of the Core Domestic CGU was set equal to the median of the rate



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used by the analysts in the reports published after the presentation of the business plan 2012-2014 and up to March 1, 2012. Such rate expresses an implicit growth rate in the terminal value (g) equal to 0%. Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain such growth, for purposes of the estimate of the earnings flow to be capitalized a level of capital expenditures (capex/revenues) was considered in line with the medium of the analysts (equal to 16.30%). With regard to the Brazil CGU, the growth rate was increased over that of last year (from 1.80% to 3.13% in local currency) to reflect the further improvement in business prospects. For purposes of the estimate of the terminal value, an investment rate (capex/revenues) was used equal to 13.32%.

With regard to the Argentina CGU, the nominal growth rate was set equal to 9.33%, a value below current inflation, and for purposes of the estimate of the terminal value an investment rate (capex/revenues) was used equal to 14.85%.

On the basis of these elements, the post-tax and pre-tax weighted average cost of capital and the relative capitalization rates and discount rates (WACC—g) have been estimated for each cash-generating unit (the values of Brazil refer to flows in reais and those of Argentina to flows in pesos) as follows:

	Core Domestic	International Wholesale	Brazil	Argentina
	%	%	%	%
WACC post-tax .....	8.90	9.36	11.87	22.60
WACC post-tax—g .....	8.90	9.36	8.74	13.27
WACC pre-tax .....	12.91	13.77	16.07	29.14
WACC pre-tax—g .....	<u>12.91</u>	<u>13.77</u>	<u>12.94</u>	<u>19.81</u>

It should be emphasized that the cost of capital of the Core Domestic CGU recorded a significant increase compared to December 31, 2010, principally driven by higher long-term rates of the sovereign securities of Italy, from 7.90% to 8.90%.

The differences between the values in use and the carrying amounts at December 31, 2011 of the four CGUs before the impairment tests amount to:

	Core Domestic	International Wholesale	Brazil	Argentina
		(millions of euros)		
Difference between values in use and carrying amounts .....	<u>-4,125</u>	<u>+ 5</u>	<u>+5,151</u>	<u>+ 90</u>

On preparation of the annual financial statements, the Telecom Italia Group repeated the impairment test that had been carried out in the first half of 2011 that led to the recognition in the half-year condensed consolidated financial statements at June 30, 2011 of an impairment loss of -3,182 million euros on the Core Domestic CGU; in light of the difference between the value in use and the carrying amount, indicated above, a further impairment loss was recognized for -4,125 million euros over and above the amount recorded in the first half of 2011.

For purposes of the sensitivity analysis, four principal variables were considered for the three CGUs whose value in use is in excess of the carrying amount: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA in the years 2012-2014 (CAGR 2012-2014) and capital expenditures in proportion to revenues (capex/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

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### Value of key variables used in estimating the value in use

	Core Domestic	International Wholesale	Brazil	Argentina
	%	%	%	%
Pre -tax discount rate .....	12.91	13.77	16.07	29.14
Long-term growth rate (g) .....	0.0	0.0	3.13	9.33
Compound Annual Growth Rate (CAGR) of EBITDA 2012-2014 .....	-0.66	-4.24	16.35	15.35
Capital expenditures rate (Capex/Revenues) .....	from 16.30 to 18.68	from 6.85 to 8.39	from 13.32 to 15.91	from 14.85 to 20.17

### Changes in key variables needed to render the recoverable amount equal to the carrying amount

	International Wholesale	Brazil	Argentina
	%	%	%
Pre-tax discount rate .....	0.08	9.06	0.53
Long-term growth rate (g) .....	-0.10	-13.62	-0.73
Compound Annual Growth Rate (CAGR) of EBITDA 2012-2014 .....	-0.80	-11.73	-0.62
Capital expenditures rate (Capex/Revenues) .....	0.05	7.70	0.41

A second level impairment test was then conducted to test for impairment at the level of the entire Group, in order to include the Central Functions and the financial cash-generating units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the cash-generating units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments post-impairment losses at the first level. No impairment losses resulted at this further level of testing.

### NOTE 5—OTHER INTANGIBLE ASSETS

Other intangible assets increased 664 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2009	Change in scope of consolidation Argentina Business Unit	Additions	Amortization	Impairment losses/ Reversals	Disposals	Exchange differences	Other changes	As of December 31, 2010
	(millions of euros)								
Industrial patents and intellectual property rights .....	2,509	—	1,135	(1,507)	—	(1)	71	422	2,629
Concessions, licenses, trademarks and similar rights .....	2,999	843	29	(314)	—	(1)	134	10	3,700
Of which licenses with an indefinite useful life .....	—	462	—	—	—	—	—	—	462
Other intangible assets .....	240	997	325	(395)	(1)	—	47	(1)	1,212
Work in progress and advance payments ..	536	—	292	—	(5)	(1)	2	(429)	395
<b>Total .....</b>	<b>6,284</b>	<b>1,840</b>	<b>1,781</b>	<b>(2,216)</b>	<b>(6)</b>	<b>(3)</b>	<b>254</b>	<b>2</b>	<b>7,936</b>

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	As of December 31, 2010	Additions	Amortization	Impairment losses/ Reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	As of December 31, 2011
	(millions of euros)								
Industrial patents and intellectual property rights .....	2,629	1,252	(1,425)	—	(1)	(69)	—	189	2,575
Concessions, licenses, trademarks and similar rights .....	3,700	60	(325)	9	(6)	(107)	—	5	3,336
Of which licenses with an indefinite useful life .....	462	—	—	—	—	(21)	—	—	441
Other intangible assets ...	1,212	331	(412)	—	—	(51)	—	17	1,097
Work in progress and advance payments ....	395	1,423	—	—	(3)	(2)	12	(233)	1,592
<b>Total .....</b>	<b>7,936</b>	<b>3,066</b>	<b>(2,162)</b>	<b>9</b>	<b>(10)</b>	<b>(229)</b>	<b>12</b>	<b>(22)</b>	<b>8,600</b>

The increase of 1,285 million euros in the additions column compared to 2010 (1,781 million euros) is principally connected with the acquisition of user rights for the 800, 1800 and 2600 MHz frequencies to be used for broadband mobile communication services, for a total amount of 1,223 million euros. This follows the participation in the auction for assignment of the frequencies by the Italian Ministry of Economic Development. The user rights, formally awarded on October 3, 2011, were assigned definitively in February 2012. Additions in 2011 also include 288 million euros of internally generated assets (287 million euros in 2010). Further details are provided in the Note "Internally generated assets".

Other changes in 2011 include, among others, the effects of the change in the scope of consolidation due to the acquisition of the 4GH group for 15 million euros and the acquisition of Tim Fiber SP and Tim Fiber RJ in Brazil for 5 million euros.

**Industrial patents and intellectual property rights** at December 31, 2011 consist mainly of applications software purchased outright and user license rights acquired for an indefinite period of time, amortized over a period between 3 and 5 years. They mainly refer to Telecom Italia S.p.A. (1,602 million euros) and to Brazil Business Unit (873 million euros).

**Concessions, licenses, trademarks and similar rights** at December 31, 2011 mainly refer to:

- unamortized cost of telephone licenses/authorizations (1,433 million euros for Telecom Italia S.p.A., 703 million euros for the Brazil Business Unit and 462 million euros for the Argentina Business Unit);
- Indefeasible Rights of Use-IRU (227 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale), amortized over the period of the individual contracts;
- TV frequencies of the Media Business Unit (116 million euros). The user rights to the frequencies used for digital terrestrial transmission are amortized over 20 years;
- unamortized cost of the trademarks of the Argentina Business Unit (329 million euros), amortized over 20 years.

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The net carrying amount of telephone licenses/authorization totaling 2,598 million euros refers to the following:

Type of license/authorization	Net carrying amount at December 31, 2011 (millions of euros)	Amortization period (years)	Amortization charges for 2011 (millions of euros)
<b>Telecom Italia S.p.A.:</b>			
UMTS .....	1,343	18	134
UMTS 2100 MHz .....	74	12	7
Wireless Local Loop .....	6	15	1
WiMax .....	10	15	1
<b>Tim Brasil group:</b>			
GSM and 3G (UMTS) .....	677	8-15	103
TDMA .....	26	14	24
<b>Sofora group-Telecom Argentina:</b>			
PCS of Nucleo S.A. ....	21	12	2
PCS of Telecom Personal S.A. ....	441	indefinite useful life	—

**Other intangible assets with a finite useful life** at December 31, 2011 basically include:

- 788 million euros of customer relationships relating to the Argentina Business Unit, measured upon acquisition of control these are amortized over a period which varies between 5 and 12 years, according to the type of clientele and service;
- 246 million euros of capitalized subscriber acquisition costs referring to some sales campaigns of Telecom Italia S.p.A. (151 million euros) and the Argentina Business Unit (95 million euros). The subscriber acquisition costs are amortized over the underlying minimum contract period (between 12 and 24 months) and eliminated from the books after completion of the amortization process;
- 26 million euros of "entry fees and charges as goodwill" in connection with the Telecom Italia S.p.A. "stores project" amortized on a straight-line basis over a period of three years.

**Work in progress and advance payments** include the above user rights for the 800, 1800 and 2600 MHz mobile frequencies and capitalized borrowing costs for 12 million euros since they are directly chargeable to the acquisition and because the time period necessary to ready the asset for use is more than 12 months. The interest rate used for the capitalization of the borrowing costs is between 5.3% and 6%. Such costs are deducted directly from "Other finance expenses".

Amortization and impairment losses are recorded in the consolidated separate income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2011 and 2010 can be summarized as follows:

	As of December 31, 2011			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
		(millions of euros)		
Industrial patents and intellectual property rights .....	13,405	(7)	(10,823)	2,575
Concessions, licenses, trademarks and similar rights .....	5,623	(250)	(2,478)	2,895
Other intangible assets .....	1,742	—	(645)	1,097
Work in progress and advance payments .....	1,602	(10)	—	1,592
<b>Total intangible assets with a finite useful life .....</b>	<b>22,372</b>	<b>(267)</b>	<b>(13,946)</b>	<b>8,159</b>
<b>Intangible assets with an indefinite useful life .....</b>	<b>441</b>	<b>—</b>	<b>—</b>	<b>441</b>
<b>Total Other intangible assets .....</b>	<b>22,813</b>	<b>(267)</b>	<b>(13,946)</b>	<b>8,600</b>

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	As of December 31, 2010			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
	(millions of euros)			
Industrial patents and intellectual property rights .....	13,985	(7)	(11,349)	2,629
Concessions, licenses, trademarks and similar rights .....	5,757	(251)	(2,268)	3,238
Other intangible assets .....	1,668	—	(456)	1,212
Work in progress and advance payments .....	405	(10)	—	395
<b>Total intangible assets with a finite useful life .....</b>	<b>21,815</b>	<b>(268)</b>	<b>(14,073)</b>	<b>7,474</b>
<b>Intangible assets with an indefinite useful life .....</b>	<b>462</b>	<b>—</b>	<b>—</b>	<b>462</b>
<b>Total Other intangible assets .....</b>	<b>22,277</b>	<b>(268)</b>	<b>(14,073)</b>	<b>7,936</b>

Impairment losses on “Concessions, licenses, trademarks and similar rights” relates to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables for international connections acquired by the Lan Med group (the former Latin American Nautilus group).

Such impairments, principally relating to the years prior to 2004, were reversed in part in 2011 following improved prospects, particularly in the South American market. The amount of accumulated impairments shows a change from 251 million euros at December 31, 2010 to 250 million euros at December 31, 2011 due to the combined effect of the translation of the U.S. dollar financial statements to euro (8 million euros) countered by the cited impairment reversal of 9 million euros.

#### NOTE 6—TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

##### *Property, plant and equipment owned*

Property, plant and equipment owned decreased 384 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2009	Change in scope of consolidation Argentina Business Unit	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	As of December 31, 2010
	(millions of euros)								
Land .....	125	113	—	—	—	—	5	—	243
Buildings (civil and industrial) .....	495	336	4	(57)	—	(4)	20	50	844
Plant and equipment ....	11,586	867	1,847	(2,794)	(3)	(10)	259	267	12,019
Manufacturing and distribution equipment ....	31	—	8	(13)	—	—	—	2	28
Ships .....	26	—	—	(4)	—	(20)	—	(2)	—
Other .....	621	206	205	(343)	—	(16)	36	78	787
Construction in progress and advance payments .....	833	166	679	—	(4)	(1)	50	(406)	1,317
<b>Total .....</b>	<b>13,717</b>	<b>1,688</b>	<b>2,743</b>	<b>(3,211)</b>	<b>(7)</b>	<b>(51)</b>	<b>370</b>	<b>(11)</b>	<b>15,238</b>

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	As of December 31, 2010	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	As of December 31, 2011
	(millions of euros)							
Land .....	243	4	—	—	(7)	(5)	—	235
Buildings (civil and industrial) ....	844	9	(73)	—	(2)	(19)	36	795
Plant and equipment .....	12,019	2,097	(2,795)	1	(25)	(213)	979	12,063
Manufacturing and distribution equipment .....	28	5	(15)	—	—	—	14	32
Other .....	787	236	(333)	—	(8)	(30)	72	724
Construction in progress and advance payments .....	1,317	634	—	(4)	(3)	(40)	(899)	1,005
<b>Total .....</b>	<b>15,238</b>	<b>2,985</b>	<b>(3,216)</b>	<b>(3)</b>	<b>(45)</b>	<b>(307)</b>	<b>202</b>	<b>14,854</b>

**Land** comprises both built-up land and available land and is not subject to depreciation. The balance at December 31, 2011 mainly refers to Telecom Italia S.p.A. (119 million euros) and the Argentina Business Unit (109 million euros).

**Buildings (civil and industrial)** almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use and light constructions. The balance at the end of 2011 is largely in reference to Telecom Italia S.p.A. (396 million euros) and the companies belonging to the Argentina Business Unit (326 million euros).

**Plant and equipment** includes the aggregate of all those structures used for operating telephone voice/data traffic. The balance at December 31, 2011 is principally attributable to Telecom Italia S.p.A. (8,442 million euros), the companies in the Brazil Business Unit (2,236 million euros) and the companies in the Argentina Business Unit (973 million euros).

**Manufacturing and distribution equipment** consists of instruments and equipment used for the running and maintenance of plant and equipment; the amount is more or less unchanged compared to the end of the prior year and is primarily carried by Telecom Italia S.p.A.

**Other** is mostly made up of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

**Construction in progress and advance payments** refer to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Additions in 2011 increased by 242 million euros compared to the prior year, and include 281 million euros of internally generated assets (260 million euros in 2010). Further details are provided in the Note "Internally generated assets".

Other changes in 2011 are represented by 125 million euros following the entry of the Brazilian companies Tim Fiber RJ and Tim Fiber SP and also the Italian group 4GH in the scope of consolidation after their acquisition. The changes also include the reclassification from buildings under finance leases to owned buildings for a building that was purchased at the end of the finance lease by Telecom Italia S.p.A. for 12 million euros.

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2011 and 2010 is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial) .....	3.33%
Plant and equipment .....	3%-50%
Manufacturing and distribution equipment .....	20%
Other .....	11%-33%

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The Telecom Italia Sparkle group concluded, taking into consideration a study conducted by an expert, to extend the useful life of submarine cables from the previous 15 years to the current 20 years. This resulted in a benefit in terms of lower depreciation charges of about 15 million euros. Such benefit will amount to 15 million euros and 14 million euros respectively in 2012 and 2013.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2011 and 2010 can be summarized as follows:

	As of December 31, 2011			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
	(millions of euros)			
Land .....	235	—	—	235
Buildings (civil and industrial) .....	2,099	(5)	(1,299)	795
Plant and equipment .....	63,868	(56)	(51,749)	12,063
Manufacturing and distribution equipment .....	248	(1)	(215)	32
Other .....	4,183	(4)	(3,455)	724
Construction in progress and advance payments .....	1,006	(1)	—	1,005
<b>Total .....</b>	<b>71,639</b>	<b>(67)</b>	<b>(56,718)</b>	<b>14,854</b>

	As of December 31, 2010			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
	(millions of euros)			
Land .....	243	—	—	243
Buildings (civil and industrial) .....	1,789	(4)	(941)	844
Plant and equipment .....	62,595	(55)	(50,521)	12,019
Manufacturing and distribution equipment .....	300	(1)	(271)	28
Other .....	4,156	(2)	(3,367)	787
Construction in progress and advance payments .....	1,318	(1)	—	1,317
<b>Total .....</b>	<b>70,401</b>	<b>(63)</b>	<b>(55,100)</b>	<b>15,238</b>

### *Assets held under finance leases*

Assets held under finance leases show a reduction of 83 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2009	Additions	Depreciation	Other changes	As of December 31, 2010
	(millions of euros)				
Buildings (civil and industrial) .....	1,246	19	(109)	(32)	1,124
Other .....	7	10	(6)	—	11
Construction in progress and advance payments .....	43	30	—	(31)	42
<b>Total .....</b>	<b>1,296</b>	<b>59</b>	<b>(115)</b>	<b>(63)</b>	<b>1,177</b>

	As of December 31, 2010	Additions	Depreciation	Other changes	As of December 31, 2011
	(millions of euros)				
Buildings (civil and industrial) .....	1,124	23	(110)	5	1,042
Other .....	11	11	(6)	—	16
Construction in progress and advance payments .....	42	10	—	(16)	36
<b>Total .....</b>	<b>1,177</b>	<b>44</b>	<b>(116)</b>	<b>(11)</b>	<b>1,094</b>



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**Buildings (civil and industrial)** includes those under long rent contracts and related building adaptations. They refer almost entirely to Telecom Italia S.p.A.

**Other** basically comprises the capitalization of finance leases of Data Center hardware.

Other changes refer to the previously mentioned reclassification from buildings under finance leases to owned buildings for a building that was purchased at the end of the finance lease in 2011 for 12 million euros.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2011 and 2010 can be summarized as follows:

As of December 31, 2011			
	Gross carrying amount	Accumulated impairment losses	Net carrying amount
		Accumulated depreciation	
	(millions of euros)		
Buildings (civil and industrial) .....	2,042	(27)	1,042
Other .....	90	—	16
Construction in progress and advance payments .....	36	—	36
<b>Total</b> .....	<b>2,168</b>	<b>(27)</b>	<b>1,094</b>

As of December 31, 2010			
	Gross carrying amount	Accumulated impairment losses	Net carrying amount
		Accumulated depreciation	
	(millions of euros)		
Buildings (civil and industrial) .....	2,039	(27)	1,124
Aircraft .....	30	—	—
Other .....	79	—	11
Construction in progress and advance payments .....	42	—	42
<b>Total</b> .....	<b>2,190</b>	<b>(27)</b>	<b>1,177</b>

At December 31, 2011 and 2010, lease payments due in future years and their present value are as follows:

As of December 31,			
	2011	2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments
			Present value of minimum lease payments
	(millions of euros)		
Within 1 year .....	238	222	243
From 2 to 5 years .....	859	609	587
Beyond 5 years .....	1,049	450	573
<b>Total</b> .....	<b>2,146</b>	<b>1,281</b>	<b>1,403</b>

As of December 31,		
	2011	2010
	(millions of euros)	
Future net minimum lease payments .....	2,146	2,108
Interest portion .....	(865)	(705)
<b>Present value of lease payments</b> .....	<b>1,281</b>	<b>1,403</b>
Finance lease liabilities .....	1,549	1,674
Financial receivables for lease contracts .....	(268)	(271)
<b>Total net finance lease liabilities</b> .....	<b>1,281</b>	<b>1,403</b>

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At December 31, 2011, the inflation adjustment to lease payments was about 28 million euros (about 25 million euros at December 31, 2010) and refers almost entirely to Telecom Italia S.p.A.

## NOTE 7—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method decreased 38 million euros compared to December 31, 2010 and include:

	As of December 31,	
	2011	2010
	(millions of euros)	
Investments accounted for using the equity method:		
Associates .....	46	84
Joint ventures .....	1	1
<b>Total</b> .....	<b>47</b>	<b>85</b>

Investments in associates accounted for using the equity method are detailed as follows:

	As of December 31, 2009	Investments	Disposals and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	As of December 31, 2010
	(millions of euros)					
EtecSA (Cuba) .....	289	—	—	100	(389)	—
Italtel group .....	—	35	—	3	—	38
Tiglio I .....	37	—	—	(14)	—	23
Tiglio II .....	1	—	—	—	—	1
Other .....	24	1	(2)	—	(1)	22
<b>Total</b> .....	<b>351</b>	<b>36</b>	<b>(2)</b>	<b>89</b>	<b>(390)</b>	<b>84</b>

	As of December 31, 2010	Investments	Disposals and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	As of December 31, 2011
	(millions of euros)					
Italtel group .....	38	—	—	(38)	—	—
Tiglio I .....	23	—	—	(1)	—	22
Tiglio II .....	1	—	—	—	—	1
Other .....	22	—	—	—	1	23
<b>Total</b> .....	<b>84</b>	<b>—</b>	<b>—</b>	<b>(39)</b>	<b>1</b>	<b>46</b>

The measurement of investments “accounted for using the equity method” includes the share of profits (losses) for the year and the exchange differences on translating foreign operations. With regard to the writedown in full of the entire investment in the Italtel group in which a 34.68% interest is held, the overall macroeconomic picture on the one hand and the specific prospects of future evolution of the company’s business on the other have led to believe that the recovery of the entire amount of the associate is not probable.

Significant aggregate data for 2011 and 2010 relating to the principal associates, prepared in accordance with IFRS, based on the Telecom Italia Group’s share, are reported below. The share of profits (losses) for the year refers, for consolidated groups, to the shares of the Parent and Non-controlling interests.

	As of December 31,	
	2011	2010
	(millions of euros)	
Total assets .....	418	463
Total liabilities .....	354	375
Revenues .....	130	251
Profits (losses) for the year .....	(18)	(21)

Investments in joint ventures include the 50% investment in Consorzio Tema Mobility.

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Aggregate data for 2011 and 2010 relating to joint ventures, prepared in accordance with IFRS, based on the Telecom Italia Group's share, is reported below.

	2011		2010	
	Consorzio Tema Mobility	Telecom Italia Group's share 50%	Consorzio Tema Mobility	Telecom Italia Group's share 50%
	(millions of euros)			
Non-current assets .....	0.0	0.0	0.1	0.0
Current assets .....	1.4	0.7	1.3	0.7
<b>Total assets</b> .....	<b>1.4</b>	<b>0.7</b>	<b>1.4</b>	<b>0.7</b>
Non-current liabilities .....	0.0	0.0	0.5	0.3
Current liabilities .....	0.5	0.3	0.1	0.0
<b>Total liabilities</b> .....	<b>0.5</b>	<b>0.3</b>	<b>0.6</b>	<b>0.3</b>
<b>Revenues</b> .....	<b>0.3</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>

The list of companies accounted for using the equity method is presented in the Note "List of companies of the Telecom Italia Group".

## NOTE 8—OTHER INVESTMENTS

Other investments refer to the following:

	As of December 31, 2009	Investments	Disposals and reimbursements of capital	Measurement at fair value	Reclassifications and other changes	As of December 31, 2010
	(millions of euros)					
Assicurazioni Generali .....	3	—	—	—	—	3
DAHLIA TV S.r.l. ....	5	3	—	—	(8)	—
Fin. Priv. ....	18	—	—	(4)	—	14
Sia—SSB .....	11	—	—	—	—	11
Other .....	16	—	—	—	(1)	15
<b>Total</b> .....	<b>53</b>	<b>3</b>	<b>—</b>	<b>(4)</b>	<b>(9)</b>	<b>43</b>

	As of December 31, 2010	Investments	Disposals and reimbursements of capital	Measurement at fair value	Reclassifications and other changes	As of December 31, 2011
	(millions of euros)					
Assicurazioni Generali .....	3	—	—	(1)	—	2
Fin. Priv. ....	14	—	—	(4)	—	10
Sia .....	11	—	—	—	—	11
Other .....	15	—	—	—	—	15
<b>Total</b> .....	<b>43</b>	<b>—</b>	<b>—</b>	<b>(5)</b>	<b>—</b>	<b>38</b>

In accordance with IAS 39, other investments represent Available-for-sale financial assets.

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

**NOTE 9—FINANCIAL ASSETS (NON-CURRENT AND CURRENT)**

Financial assets (non-current and current) are composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
<b>Non-current financial assets</b>		
<b>Securities, financial receivables and other non-current financial assets:</b>		
Securities other than investments .....	12	13
Financial receivables for lease contracts .....	153	199
Hedging derivatives relating to hedged items classified as non-current assets/ liabilities of a financial nature .....	2,701	1,524
Receivables from employees .....	41	45
Non-hedging derivatives .....	27	7
Other financial receivables .....	15	75
<b>Total non-current financial assets (A) .....</b>	<b>2,949</b>	<b>1,863</b>
<b>Current financial assets</b>		
<b>Securities other than investments:</b>		
Held for trading .....	1	—
Held to maturity .....	—	—
Available for sale .....	1,006	1,316
	<b>1,007</b>	<b>1,316</b>
<b>Financial receivables and other current financial assets:</b>		
Receivables from employees .....	9	16
Financial receivables for lease contracts .....	115	72
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature .....	244	335
Non hedging derivatives .....	24	4
Other short-term financial receivables .....	70	11
	<b>462</b>	<b>438</b>
<b>Cash and cash equivalents .....</b>	<b>6,714</b>	<b>5,526</b>
<b>Total current financial assets (B) .....</b>	<b>8,183</b>	<b>7,280</b>
<b>Total non-current and current financial assets (A + B) .....</b>	<b>11,132</b>	<b>9,143</b>

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

**Financial receivables for lease contracts** refer to:

- Teleleasing lease contracts negotiated directly with customers and of which Telecom Italia is the guarantor;
- portion of rental contracts, with the rendering of accessory services under the "full rent" formula.

**Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature** refer to the mark-to-mark component, while those classified as current assets/liabilities of a financial nature mainly consist of accrued income on derivative contracts. Further details are provided in the Note "Derivatives".

**Securities other than investments (current assets)** mainly refer to listed securities, classified as available-for-sale due beyond three months. They include 864 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. and 142 million euros of bonds with different maturities, but all with an active market, that is, readily convertible into cash. Such securities, which represent investments in "sovereign debt securities", have been purchased in accordance with the "Guideline policy for liquidity investments using financial instruments" adopted by the Telecom Italia Group in July 2009.

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**Cash and cash equivalents** increased 1,188 million euros compared to December 31, 2010. The composition is as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Liquid assets with banks, financial institutions and post offices .....	5,173	4,264
Checks, cash and other receivables and deposits for cash flexibility .....	2	3
Securities other than investments (due within 3 months) .....	1,539	1,259
<b>Total</b> .....	<b>6,714</b>	<b>5,526</b>

The different technical forms used for the investment of liquidity as of December 31, 2011 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least A- with regard to Europe and with leading local counterparts relating to investments in South America;
- country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 220 million euros (215 million euros at December 31, 2010) of Euro Commercial Papers, with an A- rating of the issuer by S&P, and 1,312 million euros (1,028 million euros at December 31, 2010) of Brazilian bank certificates of deposit (*Certificado de Depósito Bancário*) from leading local banking and financial institutions.

#### NOTE 10—MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets increased 194 million euros compared to December 31, 2010. They include:

	As of December 31,			
	2011		2010	
	<i>Of which Financial Instruments IAS 39</i>		<i>Of which Financial Instruments IAS 39</i>	
	(millions of euros)			
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables .....	528	349	417	249
Medium/long-term prepaid expenses .....	600	—	517	—
Total .....	1,128	349	934	249

Miscellaneous receivables and other non-current assets amount to 1,128 million euros (934 million euros at December 31, 2010). Miscellaneous receivables mainly relate to the Brazil Business Unit (438 million euros) and include judicial deposits of 250 million euros. Medium/long-term prepaid expenses total 600 million euros (517 million euros at December 31, 2010) and relate to the deferral of costs in connection with the activation of new contracts.

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

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## NOTE 11—INCOME TAXES

### *Current income tax receivables*

Current income tax receivables amount to 155 million euros (132 million euros at December 31, 2010) and mainly include short-term receivables of the Brazil Business Unit companies (147 million euros).

### *Deferred tax assets and deferred tax liabilities*

The net balance is composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Deferred tax assets .....	1,637	1,863
Deferred tax liabilities .....	(1,056)	(991)
<b>Total .....</b>	<b>581</b>	<b>872</b>

Since the presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

	As of December 31,	
	2011	2010
	(millions of euros)	
Deferred tax assets .....	1,788	1,977
Deferred tax liabilities .....	(1,207)	(1,105)
<b>Total .....</b>	<b>581</b>	<b>872</b>

Upon presentation of the tax return for the year 2008, the Parent, Telecom Italia, took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the "derivation regime" and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 of November 29, 2008; this realignment—which involves the reabsorption of the relative net deductible temporary differences in equal amounts over five years from 2009 to 2013—will result in an absorption of net deferred tax assets of approximately 60 million euros per year. At December 31, 2011, the related unused tax credit was 129 million euros (193 million euros at December 31, 2010).

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The temporary differences which make up this line item at December 31, 2011 and 2010 as well as the movements during 2011, are the following:

	At December 31, 2010	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	At December 31, 2011
	(millions of euros)				
<b>Deferred tax assets:</b>					
• Tax loss carryforwards .....	659	(67)	—	(47)	545
• Derivatives .....	297	—	105	(2)	400
• Provision for bad debts .....	264	17	—	1	282
• Provisions for risks and charges .....	240	(5)	—	(4)	231
• Provision for pension fund integration Law No. 58/92 ...	39	(20)	—	—	19
• Capital grants .....	13	(5)	—	—	8
• Taxed amortization and depreciation .....	147	(6)	—	(3)	138
• Unused tax credit (realignment, Leg. Decree 185/08) .....	193	(64)	—	—	129
• Other deferred tax assets .....	125	(83)	—	(6)	36
<b>Total .....</b>	<b>1,977</b>	<b>(233)</b>	<b>105</b>	<b>(61)</b>	<b>1,788</b>
<b>Deferred tax liabilities:</b>					
• Derivatives .....	(152)	(13)	(192)	—	(357)
• Business combinations-for step-up of net assets in excess of tax basis .....	(800)	61	—	34	(705)
• Deferred gains .....	(4)	2	—	—	(2)
• Accelerated depreciation .....	(28)	(6)	—	—	(34)
• Discounting of provision for employee severance indemnities .....	(29)	(3)	—	—	(32)
• Other deferred tax liabilities .....	(92)	14	—	1	(77)
<b>Total .....</b>	<b>(1,105)</b>	<b>55</b>	<b>(192)</b>	<b>35</b>	<b>(1,207)</b>
<b>Total net deferred tax assets (liabilities) .....</b>	<b>872</b>	<b>(178)</b>	<b>(87)</b>	<b>(26)</b>	<b>581</b>

The expirations of Deferred tax assets and Deferred tax liabilities at December 31, 2011 are as follows:

	Within 1 year	Beyond 1 year	Total at December 31, 2011
	(millions of euros)		
Deferred tax assets (A) .....	537	1,251	1,788
Deferred tax liabilities (B) .....	(49)	(1,158)	(1,207)
<b>Total net deferred tax assets (liabilities) (A + B) .....</b>	<b>488</b>	<b>93</b>	<b>581</b>



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At December 31, 2011, the Group has unused tax loss carryforwards of 4,567 million euros mainly referring to the Brazil Business Unit, the Lan Med group and the companies Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

<u>Year of expiration</u>	<u>(millions of euros)</u>
2012 .....	—
2013 .....	—
2014 .....	3
2015 .....	15
2016 .....	3
Expiration after 2016 .....	126
Without expiration .....	4,420
<b>Total unused tax loss carryforwards .....</b>	<b><u>4,567</u></b>

Tax loss carryforwards considered in the calculation of deferred tax assets amount to 1,691 million euros at December 31, 2011 (2,025 million euros at December 31, 2010) and mainly refer to the Brazil Business Unit, to the Lan Med group and to the company Telecom Italia International.

Furthermore tax loss carryforwards of 2,876 million euros, representing deferred tax assets of 881 million euros (1,197 million euros at December 31, 2010) have not been recognized at this time, because their recoverability is not considered probable.

At December 31, 2011, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries, in that their distribution or utilization is not foreseen for purposes other than the absorption of losses.

### ***Current income tax payables***

Current income tax payables amount to 399 million euros (279 million euros at December 31, 2010). They are composed of the following:

	<u>At December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>(millions of euros)</u>	
Income tax payables:		
Non-current .....	63	44
Current .....	336	235
<b>Total .....</b>	<b><u>399</u></b>	<b><u>279</u></b>

Specifically, the non-current portion of 63 million euros refers principally to the Brazil Business Unit (49 million euros) and the Brazilian company TI Latam Participações e Gestão Administrativa Ltd (12 million euros). The entire amount of the latter and a part of that referring to the Brazil Business Unit comes from taking part in the Brazilian Federal authority's tax amnesty program "*Programa de Recuperação Fiscal (REFIS)*".

The current portion of 336 million euros mainly regards the Brazil Business Unit (152 million euros), the Argentina Business Unit (109 million euros) and also the IRES payable on the Telecom Italia Group's income tax consolidation (60 million euros).

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### **Income tax expense**

Income taxes amount to 1,643 million euros and increased 1,093 million euros compared to 2010 (550 million euros).

Details are as follows:

	2011	2010
	(millions of euros)	
Current taxes for the year .....	1,563	1,347
Difference in prior years estimates .....	(98)	(89)
<b>Total current taxes .....</b>	<b>1,465</b>	<b>1,258</b>
Deferred taxes .....	178	(708)
<b>Total taxes on continuing operations (A) .....</b>	<b>1,643</b>	<b>550</b>
<b>Total taxes on Discontinued operations/Non-current assets held for sale (B) .....</b>	<b>—</b>	<b>—</b>
<b>Total income tax expense for the year (A + B) .....</b>	<b>1,643</b>	<b>550</b>

Income taxes in 2010 included a benefit of more than 600 million euros which came from the recognition of deferred tax assets by the Brazil Business Unit in connection with the tax loss carryforwards recorded in prior years which became recoverable on the basis of the prospects of profits by the companies in the Business Unit.

In addition to this effect, the increase in taxes is attributable to the higher taxable base of the Parent, Telecom Italia, of the Brazil Business Unit and also the consolidation of the Argentina Business Unit for the full year 2011.

The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy (27.5%), and the effective tax rate for the years ended December 31, 2011 and 2010 is the following:

	2011	2010
	(millions of euros)	
<b>Profit (loss) before tax</b>		
From continuing operations .....	(2,624)	4,132
From Discontinuing operations/Non-current assets held for sale .....	(13)	(7)
<b>Total profit (loss) before tax .....</b>	<b>(2,637)</b>	<b>4,125</b>
<b>Income taxes on theoretical income (loss) .....</b>	<b>(725)</b>	<b>1,134</b>
Income tax effect on increase (decrease) in variations:		
Tax losses of the year not considered recoverable .....	15	18
Tax losses not considered recoverable in prior years and recoverable in future years .....	(40)	(627)
Non-deductible costs .....	29	36
Non-deductible goodwill impairment charge, Domestic Business Unit/Media Business Unit .....	2,025	—
Non-taxable Sofora revaluation .....	—	(73)
Other net differences .....	3	(294)
Effective income tax recognized in income statement, excluding IRAP .....	1,307	194
IRAP .....	336	356
<b>Total effective income tax recognized in income statements .....</b>	<b>1,643</b>	<b>550</b>

The impact of Regional Income Tax (**IRAP**) is not taken into consideration in order to avoid any distorting effect, since such tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

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## NOTE 12—INVENTORIES

Inventories increased 60 million euros compared to December 31, 2010. The composition is as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Raw materials and supplies .....	3	3
Work in progress and semifinished products .....	5	3
Finished goods .....	439	381
<b>Total</b> .....	<b>447</b>	<b>387</b>

Inventories particularly refer to Telecom Italia S.p.A. for 125 million euros (112 million euros at December 31, 2010), the companies in the Brazil Business Unit for 113 million euros (103 million euros at December 31, 2010) and the companies in the Argentina Business Unit for 96 million euros (88 million euros at December 31, 2010). They mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories.

Another 79 million euros (69 million euros at December 31, 2010) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

In 2011, inventories were written down for 12 million euros (5 million euros in 2010) mainly for the adjustment to estimated realizable value of fixed and mobile equipment and handsets for marketing.

No inventories are pledged as collateral.

## NOTE 13—TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased 20 million euros compared to December 31, 2010 and are composed of the following:

	As of December 31,			
	2011		2010	
		Of which Financial Instruments IAS 39		Of which Financial Instruments IAS 39
	(millions of euros)			
<b>Amounts due on construction contracts</b> .....	<b>49</b>		<b>36</b>	
<b>Trade receivables:</b>				
● Receivables from customers .....	4,576	4,576	4,536	4,536
● Receivables from other telecommunication operators .....	1,725	1,725	1,870	1,870
	<b>6,301</b>	<b>6,301</b>	<b>6,406</b>	<b>6,406</b>
<b>Miscellaneous receivables and other current assets:</b>				
● Other receivables .....	977	331	873	280
● Trade and miscellaneous prepaid expenses .....	443	—	475	—
	<b>1,420</b>	<b>331</b>	<b>1,348</b>	<b>280</b>
<b>Total</b> .....	<b>7,770</b>	<b>6,632</b>	<b>7,790</b>	<b>6,686</b>

Further details on Financial Instruments are provided in the Note “*Supplementary disclosures on financial instruments*”.

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The ageing of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2011 and December 31, 2010 is as follows:

				Overdue:			
	As of December 31, 2011	Total Current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
				(millions of euros)			
Trade and miscellaneous receivables and other current assets .....	<u>6,632</u>	<u>4,663</u>	<u>1,969</u>	<u>852</u>	<u>207</u>	<u>226</u>	<u>684</u>

				Overdue:			
	As of December 31, 2010	Total Current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
				(millions of euros)			
Trade and miscellaneous receivables and other current assets .....	<u>6,686</u>	<u>4,598</u>	<u>2,088</u>	<u>980</u>	<u>200</u>	<u>178</u>	<u>730</u>

Overdue receivables at December 31, 2011 account for a lower percentage of total receivables compared to the end of the prior year. Receivables overdue less than 90 days or more than one year in particular are lower. The increase in overdue amounts from 181 to 365 days can be attributed to Telecom Italia S.p.A. and the companies in the Brazil Business Unit.

Trade receivables amount to 6,301 million euros (6,406 million euros at December 31, 2010) and are net of the provision for bad debts of 845 million euros (876 million euros at December 31, 2010).

Trade receivables specifically refer to Telecom Italia S.p.A. (4,004 million euros), the Brazil Business Unit (1,363 million euros) and the Sofora group—Telecom Argentina (370 million euros).

Trade receivables include 88 million euros (29 million euros at December 31, 2010) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use—IRU.

Movements in the provision for bad debts are as follows:

	<u>2011</u>	<u>2010</u>
	(millions of euros)	
<b>At January 1 .....</b>	<b><u>876</u></b>	<b><u>989</u></b>
Provision charges to the income statement .....	375	339
Utilization and decreases .....	(393)	(509)
Change in the Sofora group area (Argentina) .....	—	29
Exchange differences and other changes .....	(13)	28
<b>At December 31 .....</b>	<b><u>845</u></b>	<b><u>876</u></b>

The provision for bad debts refers to writedowns of individual receivables for 358 million euros (420 million euros at December 31, 2010) and overall writedowns for 487 million euros (456 million euros at December 31, 2010).

Provision charges for bad debts are recorded for specific credit positions that present an element of individual risk. On credit positions that do not present such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics.

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Other receivables amount to 977 million euros (873 million euros at December 31, 2010) and are net of a provision for bad debts of 132 million euros (84 million euros at December 31, 2010). Details are as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Advances to suppliers .....	36	46
Receivables from employees .....	25	27
Tax receivables .....	425	346
Sundry receivables .....	491	454
<b>Total</b> .....	<b>977</b>	<b>873</b>

Tax receivables mainly include 358 million euros relating to the Brazil Business Unit largely for local indirect taxes and 38 million euros to Telecom Italia S.p.A. for credits resulting from tax returns, other taxes and also VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables mainly include:

- receivables from factoring companies for 146 million euros, of which 62 million euros is from Mediofactoring (a company in the Intesa Sanpaolo group) and 84 million euros from other factoring companies;
- receivable for the Italian Universal Service (53 million euros);
- receivables from the Italian State and the European Union (23 million euros) for grants regarding research and training projects;
- receivables from Alternative Network Operators (ANOs) (120 million euros).

Trade and miscellaneous prepaid expenses mainly pertain to building leases, rentals and maintenance payments as well as the deferral of costs referring to the activation of new contracts. Trade prepaid expenses include 350 million euros of the Parent, Telecom Italia, (mainly the deferral of costs connected with the activation of new contracts for 228 million euros, building leases for 65 million euros, rent and maintenance payments for 25 million euros and insurance premiums for 9 million euros).

## NOTE 14—EQUITY

Equity includes:

	As of December 31,	
	2011	2010
	(millions of euros)	
Equity attributable to owners of the Parent .....	22,791	28,819
Equity attributable to Non-controlling interests .....	3,904	3,736
<b>Total</b> .....	<b>26,695</b>	<b>32,555</b>

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The composition of the **Equity attributable to owners of the Parent** is the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Share capital of the Parent (net of treasury shares held by the Group) .....	10,604	10,600
Paid-in capital .....	1,704	1,697
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year(*) .....	10,483	16,522
<b>Total</b> .....	<b>22,791</b>	<b>28,819</b>

(\*) of which:

– Reserve for available-for-sale financial assets .....	(4)	(7)
– Reserve for cash flow hedges .....	(74)	(284)
– Reserve for exchange differences on translating foreign operations .....	1,089	1,401
– Other gains (losses) of associates and joint ventures accounted for using the equity method .....	(1)	(1)
– Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .....	9,473	15,413

Movements in **share capital** during 2011, 2010 and 2009 are presented in the following tables:

#### Reconciliation between the number of outstanding shares at December 31, 2008 and December 31, 2009

	Shares as of December 31, 2008	Shares issued following bond conversion/ Purchase of treasury shares	Shares as of December 31, 2009	Percentage of Share Capital
	(number of shares of par value of €0.55 each)			
Ordinary Shares issued (a) .....	13,380,795,473	111,466	13,380,906,939	68.95%
Less: Treasury Shares (b) .....	(150,816,387)	(11,400,000)	(162,216,387)	
Ordinary Shares Outstanding (c) .....	13,229,979,086	(11,288,534)	13,218,690,552	
Savings Shares Issued and Outstanding (d) ..	6,026,120,661	—	6,026,120,661	31.05%
<b>Total Telecom Italia S.p.A. shares issued (a + d) .....</b>	<b>19,406,916,134</b>	<b>111,466</b>	<b>19,407,027,600</b>	<b>100.00%</b>
<b>Total Telecom Italia S.p.A. shares outstanding (c + d) .....</b>	<b>19,256,099,747</b>	<b>(11,288,534)</b>	<b>19,244,811,213</b>	

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#### Reconciliation between the number of outstanding shares at December 31, 2009 and December 31, 2010

	Shares as of December 31, 2009	Shares issued for plans destined for employees	Shares as of December 31, 2010	Percentage of Share Capital
	(number of shares of par value of €0.55 each)			
Ordinary Shares issued (a) .....	13,380,906,939	27,056,139	13,407,963,078	68.99%
Less: Treasury Shares (b) .....	(162,216,387)	—	(162,216,387)	
Ordinary Shares Outstanding (c) .....	13,218,690,552	27,056,139	13,245,746,691	
Savings Shares Issued and Outstanding (d) .....	6,026,120,661	—	6,026,120,661	31.01%
<b>Total Telecom Italia S.p.A. shares issued (a + d) .....</b>	<b>19,407,027,600</b>	<b>27,056,139</b>	<b>19,434,083,739</b>	<b>100.00%</b>
<b>Total Telecom Italia S.p.A. shares outstanding (c + d) .....</b>	<b>19,244,811,213</b>	<b>27,056,139</b>	<b>19,271,867,352</b>	

#### Reconciliation between the number of outstanding shares at December 31, 2010 and December 31, 2011

	Shares as of December 31, 2010	Shares issued for plans destined for employees	Shares as of December 31, 2011	Percentage of Share Capital
	(number of shares of par value of €0.55 each)			
Ordinary Shares issued (a) .....	13,407,963,078	8,876,296	13,416,839,374	69.01%
Less: Treasury Shares (b) .....	(162,216,387)	—	(162,216,387)	
Ordinary Shares Outstanding (c) .....	13,245,746,691	8,876,296	13,254,622,987	
Savings Shares Issued and Outstanding (d) .....	6,026,120,661	—	6,026,120,661	30.99%
<b>Total Telecom Italia S.p.A. shares issued (a + d) .....</b>	<b>19,434,083,739</b>	<b>8,876,296</b>	<b>19,442,960,035</b>	<b>100.00%</b>
<b>Total Telecom Italia S.p.A. shares outstanding (c + d) .....</b>	<b>19,271,867,352</b>	<b>8,876,296</b>	<b>19,280,743,648</b>	

#### Reconciliation between the value of the outstanding shares as of December 31, 2008 and December 31, 2009

	Share capital as of December 31, 2008	Change in share capital as a result of treasury share buybacks (millions of euros)	Share capital as of December 31, 2009
Ordinary Shares issued (a) .....	7,360	—	7,360
Less: Treasury Shares (b) .....	(83)	(6)	(89)
Ordinary Shares Outstanding (c) .....	7,277	(6)	7,271
Savings Shares Issued and Outstanding (d) .....	3,314	—	3,314
<b>Total Telecom Italia S.p.A. share capital issued (a + d) .....</b>	<b>10,674</b>	<b>—</b>	<b>10,674</b>
<b>Total Telecom Italia S.p.A. share capital outstanding (c + d) .....</b>	<b>10,591</b>	<b>(6)</b>	<b>10,585</b>



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#### Reconciliation between the value of the outstanding shares as of December 31, 2009 and December 31, 2010

	Share capital as of December 31, 2009	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2010
Ordinary Shares issued (a) .....	7,360	15	7,375
Less: Treasury Shares (b) .....	(89)	—	(89)
Ordinary Shares Outstanding (c) .....	7,271	15	7,286
Savings Shares Issued and Outstanding (d) .....	3,314	—	3,314
<b>Total Telecom Italia S.p.A. share capital issued (a + d) .....</b>	<b>10,674</b>	<b>15</b>	<b>10,689</b>
<b>Total Telecom Italia S.p.A. share capital outstanding (c + d) .....</b>	<b>10,585</b>	<b>15</b>	<b>10,600</b>

#### Reconciliation between the value of the outstanding shares as of December 31, 2010 and December 31, 2011

	Share capital as of December 31, 2010	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2011
Ordinary Shares issued (a) .....	7,375	4	7,379
Less: Treasury Shares (b) .....	(89)	—	(89)
Ordinary Shares Outstanding (c) .....	7,286	4	7,290
Savings Shares Issued and Outstanding (d) .....	3,314	—	3,314
<b>Total Telecom Italia S.p.A. share capital issued (a + d) .....</b>	<b>10,689</b>	<b>4</b>	<b>10,693</b>
<b>Total Telecom Italia S.p.A. share capital outstanding (c + d) .....</b>	<b>10,600</b>	<b>4</b>	<b>10,604</b>

In 2011, share capital increased 4 million euros due to the effect of the issue of bonus shares for the "Broad-based Employee Share Ownership Plan 2010-2014", approved by the Telecom Italia S.p.A. shareholders' meeting held on April 29, 2010.

Further details are presented in the following paragraphs and in the Note "Equity compensation plans".

The total amount of ordinary treasury shares at December 31, 2011 is 508 million euros and recorded as follows: the part relating to par value (89 million euros) is recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves.

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#### SHARE CAPITAL INFORMATION

The Telecom Italia S.p.A. ordinary and savings shares are also listed on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit.

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The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of financing and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the euro, U.S. dollar and Pound sterling financial markets to minimize costs), taking care to reduce the refinancing risk.

The remuneration of risk capital is proposed by the board of directors to the shareholders' meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

## RIGHTS OF SAVINGS SHARES

The rights of the Telecom Italia S.p.A. savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;
- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders' meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;
- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;
- in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, the shareholders' meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;
- the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;
- upon the wind-up of Telecom Italia S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital for the entire par value;
- in the event of the cessation of trading in the Company's ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders' meeting called for that purpose within two months of being excluded from trading.

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**Paid-in capital** totals 1,704 million euros, increasing 7 million euros compared to December 31, 2010, following the capital increase to service the "Broad-based Employee Share Ownership Plan 2010-2014", approved by the Telecom Italia S.p.A. shareholders' meeting held on April 29, 2010.

**Other reserves and retained earnings (accumulated losses), including profit (loss) for the year** comprise:

- the **Reserve for available-for-sale financial assets** shows a negative balance of 4 million euros at December 31, 2011, changing 3 million euros compared to December 31, 2010. It includes unrealized losses relating to the investment in Assicurazioni Generali (-2 million euros) and the investment in

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Fin.Priv. (-6 million euros) by the Parent, Telecom Italia, as well as the unrealized losses on the securities portfolio of Telecom Italia Finance (-15 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (19 million euros). This reserve is expressed net of deferred tax liabilities of 7 million euros (at December 31, 2010, it was expressed net of deferred tax liabilities of 3 million euros);

- the **Reserve for cash flow hedges** shows a negative balance of 74 million euros at December 31, 2011, changing 210 million euros compared to December 31, 2010. This reserve is expressed net of deferred tax assets of 22 million euros (at December 31, 2010, it was expressed net of deferred tax assets of 106 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements;
- the **Reserve for exchange differences on translating foreign operations** shows a positive balance of 1,089 million euros at December 31, 2011, decreasing 312 million euros compared to December 31, 2010. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit and in the Argentina Business Unit;
- **Other gains (losses) of associates and joint ventures accounted for using the equity method** shows a negative balance of 1 million euros at December 31, 2011, unchanged compared to December 31, 2010;
- **Other reserves and retained earnings (accumulated losses), including profit (loss) for the year** that amounts to 9,473 million euros, decreasing 5,940 million euros compared to December 31, 2010. The change is mainly due to the sum of the following:
  - dividends of 1,184 million euros (1,029 million euros in 2010);
  - loss for the year attributable to owners of the Parent of 4,726 million euros (profit for the year of 3,121 million euros in 2010);
  - negative effect arising from the increase in the economic interest in the companies of the Argentina Business Unit for -57 million euros.

**Equity attributable to Non-controlling interests** amounts to 3,904 million euros, increasing 168 million euros compared to December 31, 2010. The change is principally represented by the sum of:

- dividends approved of 118 million euros;
- profit for the year attributable to Non-controlling interests of 446 million euros (454 million euros in 2010);
- negative change in the "Reserve for exchange differences on translating foreign operations" of -226 million euros;
- negative effect arising from the increase in the economic interest in the companies of the Argentina Business Unit of -153 million euros;
- positive effect of capital operations by companies in the Brazil Business Unit of +221 million euros.

The line item consists principally of the equity attributable to the Non-controlling interests referring mainly to the companies in the Brazil Business Unit, the Argentina Business Unit and the Media Business Unit.

## FUTURE POTENTIAL CHANGES IN SHARE CAPITAL

Details of "Future potential changes in share capital" are presented in the Note "Earnings per share".

### Authorizations for the issue of convertible bonds and the buyback of treasury shares

During 2011, the board of directors of Telecom Italia S.p.A. did not exercise the right to issue bonds convertible into ordinary shares, nor were there changes in the number of treasury shares held by the Telecom Italia Group.

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With respect to the authorization for the buyback of treasury shares, the ordinary shareholders' meeting of Telecom Italia S.p.A. held on April 12, 2011, resolved on the following:

- to authorize, for a period of 18 months, starting from the date of the shareholders' resolution, the buyback, on one or more occasions and at any time, of Telecom Italia S.p.A. savings shares, within the quantitative limits established by law and, in any case, within a maximum expenditure limit of 800,000,000 euros;  
the purchase price must be—in accordance with regulatory requirements or recognized market practices—between a minimum and a maximum of the weighted average stock market prices of the savings shares recorded by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of the buyback or of fixing the price, respectively decreased or increased by 20%;  
the buyback of treasury shares should nevertheless be within the limits of the available reserves shown in the most recent financial statements approved at the time of carrying out the transaction. The purchases should be carried out on regulated markets, in the manner set out by Borsa Italiana S.p.A., in accordance with art. 132 of Legislative Decree 58 of February 24, 1998 and art. 144 bis, paragraph 1, letter b) and c) of Consob Regulation 11971/99;  
to authorize, for the same period of 18 months, starting from the date of this shareholders' resolution, the disposal in whole or in part, on one or more occasions and at any time, of Telecom Italia S.p.A. savings shares in the Company's portfolio, with the right to proceed, in case of disposal, to subsequent buyback transactions up to the expiration date of the shareholders' authorization, keeping in mind the limits established by law also with regard to the number of treasury shares that the Company can hold at any one time and also providing for compliance with the expenditure limit and the other conditions as established above by these resolutions;  
the disposals may be carried out according to the manner permitted by the current law or regulation in force, at the discretion of the board of directors;
- to mandate the board of directors to take the necessary steps for account postings to be made following treasury share buyback and disposal transactions, in accordance with the provisions of the law and the accounting principles applicable at the time;
- to mandate the chairman of the board of directors and the chief executive officer, jointly and severally and through agents, to execute the transactions that are the subject of this resolution.

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## NOTE 15—FINANCIAL LIABILITIES (NON—CURRENT AND CURRENT)

Non-current and current financial liabilities (gross financial debt) are composed as follows:

		As of December 31,	
		2011	2010
		(millions of euros)	
<b>Financial payables (medium/long-term):</b>			
• Bonds .....		24,478	24,589
• Amounts due to banks .....		6,687	5,501
• Other financial payables .....		837	503
		<b>32,002</b>	<b>30,593</b>
<b>Finance lease liabilities (medium/long-term) ...</b>		<b>1,304</b>	<b>1,442</b>
<b>Other financial liabilities (medium/long-term):</b>			
• Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature .....		2,513	2,238
• Non-hedging derivatives .....		40	74
• Other liabilities .....		1	1
		<b>2,554</b>	<b>2,313</b>
<b>Total non-current financial liabilities .....</b>	<b>(A)</b>	<b>35,860</b>	<b>34,348</b>
<b>Financial payables (short-term):</b>			
• Bonds .....		3,895	4,989
• Amounts due to banks .....		1,192	873
• Other financial payables .....		527	517
		<b>5,614</b>	<b>6,379</b>
<b>Finance lease liabilities (short-term) .....</b>		<b>245</b>	<b>232</b>
<b>Other financial liabilities (short-term):</b>			
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature .....		196	269
• Non-hedging derivatives .....		36	2
• Other liabilities .....		—	—
		<b>232</b>	<b>271</b>
<b>Total current financial liabilities .....</b>	<b>(B)</b>	<b>6,091</b>	<b>6,882</b>
<b>Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale .....</b>	<b>(C)</b>	<b>—</b>	<b>—</b>
<b>Total financial liabilities (Gross financial debt) .....</b>	<b>(A + B + C)</b>	<b>41,951</b>	<b>41,230</b>

Further details on Financial Instruments are provided in the Note “*Supplementary disclosures on financial instruments*”.

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Gross financial debt according to the original currency of the transaction is as follows:

	As of December 31, 2011		As of December 31, 2010	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD .....	12,386	9,572	14,196	10,624
GBP .....	2,532	3,032	2,531	2,940
BRL .....	2,624	1,081	2,682	1,205
JPY .....	20,809	208	20,834	192
ARS .....	740	133	973	183
PYG .....	140,043	24	186,914	31
EURO .....		27,901		26,055
		<b>41,951</b>		<b>41,230</b>

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Up to 2.5% .....	6,517	6,520
From 2.5% to 5% .....	4,973	4,240
From 5% to 7.5% .....	20,310	20,306
From 7.5% to 10% .....	4,921	5,064
Over 10% .....	839	1,002
Accruals/deferrals, MTM and derivatives .....	4,391	4,098
	<b>41,951</b>	<b>41,230</b>

After giving effect to the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Up to 2.5% .....	10,259	11,714
From 2.5% to 5% .....	5,722	6,236
From 5% to 7.5% .....	18,502	15,969
From 7.5% to 10% .....	2,018	1,995
Over 10% .....	1,059	1,218
Accruals/deferrals, MTM and derivatives .....	4,391	4,098
	<b>41,951</b>	<b>41,230</b>

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The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

***Detail of the maturities of Financial liabilities—nominal repayment amount:***

	Maturing by December 31, of the year						Total
	2012	2013	2014	2015	2016	After 2016	
	(millions of euros)						
Bonds .....	3,131	3,449	2,912	1,801	2,250	13,432	26,975
Loans and other financial liabilities .....	789	1,606	3,008	1,029	548	1,696	8,676
Finance lease liabilities .....	230	115	176	151	135	727	1,534
<b>Total .....</b>	<b>4,150</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>37,185</b>
Current financial liabilities .....	870	—	—	—	—	—	870
<b>Total .....</b>	<b>5,020</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>38,055</b>

The main components of financial liabilities are set forth below.

**Bonds** are composed as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
Non-current portion .....	24,478	24,589
Current portion .....	3,895	4,989
<b>Total carrying amounts .....</b>	<b>28,373</b>	<b>29,578</b>
Fair value adjustment and measurement at amortized cost .....	(1,398)	(1,249)
<b>Total nominal repayment amount .....</b>	<b>26,975</b>	<b>28,329</b>

The nominal repayment amount of bonds totals 26,975 million euros, decreasing 1,354 million euros compared to December 31, 2010 (28,329 million euros) following repayments/new issues that took place in 2011.



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The following table lists the bonds issued by companies of the Telecom Italia Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price as of December 31, 2011 (%)	Market value as of December 31, 2011 (millions of euros)
<b>Bonds issued by Telecom Italia S.p.A.</b>								
Euro	1,222.5	1,222.5	6.250%	02/01/2002	02/01/2012	98.952	100.277	1,226
Euro	1,000	1,000	3 month Euribor + 0.53%	12/06/2005	12/06/2012	100	96.459	965
Euro	645	645	6.750%	03/19/2009	03/21/2013	99.574	102.316	660
Euro	500	500	3 month Euribor + 0.63%	07/19/2007	07/19/2013	100	93.872	469
Euro	500	500	7.875%	01/22/2009	01/22/2014	99.728	104.671	523
Euro	673	673	4.750%	05/19/2006	05/19/2014	99.156	98.943	666
Euro	120	120	3 month Euribor + 0.66%	11/23/2004	11/23/2015	100	81.342	98
GBP	500	598.6	5.625%	06/29/2005	12/29/2015	99.878	95.708	573
Euro	1,000	1,000	5.125%	01/25/2011	01/25/2016	99.686	95.661	957
Euro	850	850	8.250%	03/19/2009	03/21/2016	99.740	105.072	893
Euro	400	400	3 month Euribor + 0.79%	06/07/2007	06/07/2016	100	80.167	321
Euro	1,000	1,000	7.000%	10/20/2011	01/20/2017	100.185(*)	100.073	1,001
GBP	750	897.9	7.375%	05/26/2009	12/15/2017	99.608	99.675	895
Euro	750	750	4.750%	05/25/2011	05/25/2018	99.889	87.340	655
Euro	1,250	1,250	5.375%	01/29/2004	01/29/2019	99.070	88.809	1,110
GBP	850	1,017.6	6.375%	06/24/2004	06/24/2019	98.850	91.565	932
Euro	265.8	265.8	6 month Euribor + (base 365)	01/01/2002	01/01/2022	100	100	266
Euro	1,250	1,250	5.25%	02/10/2010	02/10/2022	99.295	82.560	1,032
GBP	400	478.9	5.875%	05/19/2006	05/19/2023	99.622	82.013	393
Euro	670	670	5.250%	03/17/2005	03/17/2055	99.667	66.693	447
<b>Sub-Total</b>		<b>15,089</b>						<b>14,082</b>
<b>Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.</b>								
Euro	107.7	107.7	3 month Euribor + 1.30%	03/12/2010	03/14/2012	100	99.992	108
Euro	801.2	801.2	7.250%	04/24/2002	04/24/2012	101.651(*)	101.190	811
Euro	758.7	758.7	6.875%	01/24/2003	01/24/2013	99.332	103.045	782
JPY	20,000	199.6	3.550%	04/22/2002	05/14/2032	99.250	101.092	202
Euro	1,015	1,015	7.750%	01/24/2003	01/24/2033	109.646(*)	89.036	904
<b>Sub-Total</b>		<b>2,882</b>						<b>2,807</b>
<b>Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.</b>								
USD	2,000	1,545.7	5.250%	10/29/2003	11/15/2013	99.742	96.286	1,488
USD	1,000	772.9	6.175%	06/18/2009	06/18/2014	100	96.970	749
USD	1,250	966.1	4.950%	10/06/2004	09/30/2014	99.651	93.498	903
USD	1,400	1,082.0	5.250%	09/28/2005	10/01/2015	99.370	92.418	1,000
USD	1,000	772.9	6.999%	06/04/2008	06/04/2018	100	94.630	731
USD	1,000	772.9	7.175%	06/18/2009	06/18/2019	100	94.995	734
USD	1,000	772.9	6.375%	10/29/2003	11/15/2033	99.558	77.333	598
USD	1,000	772.9	6.000%	10/06/2004	09/30/2034	99.081	75.573	584
USD	1,000	772.9	7.200%	07/18/2006	07/18/2036	99.440	84.323	652
USD	1,000	772.9	7.721%	06/04/2008	06/04/2038	100	88.603	685
<b>Sub-Total</b>		<b>9,004</b>						<b>8,124</b>
<b>Total</b>		<b>26,975</b>						<b>25,013</b>

(\*) Weighted average issue price for bonds issued with more than one tranche.

The regulations and/or Offering Circulars relating to the notes/bonds described above are available on the corporate website [telecomitalia.com](http://telecomitalia.com).

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The following table lists the changes in bonds during 2011:

<u>New issues</u>	<u>Currency</u>	<u>Amount (millions of original currency)</u>	<u>Issue date</u>
Telecom Italia S.p.A. 1,000 million euros 7% maturing 01/20/2017(*) .....	Euro	1,000	10/20/2011
Telecom Italia S.p.A. 750 million euros 4.75% maturing 05/25/2018 .....	Euro	750	05/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 01/25/2016 ....	Euro	1,000	01/25/2011

(\*) On October 20, 2011, bonds were issued for 750 million euros; subsequently, on November 3, 2011, the issue was reopened and increased for another 250 million euros.

<u>Repayments</u>	<u>Currency</u>	<u>Amount (millions of original currency)</u>	<u>Repayment date</u>
Telecom Italia Capital S.A., Floating Rate Notes 850 million USD, 3 month USD Libor + 0.61% .....	USD	850	07/18/2011
Telecom Italia Capital S.A. 750 million USD 6.2% .....	USD	750	07/18/2011
Telecom Italia Finance S.A. 7.50% 1,791 million euros(1) .....	Euro	1,791	04/20/2011
Telecom Italia Capital S.A. Floating Rates Notes 400 million USD, 3 month USD Libor + 0.48%, .....	USD	400	02/01/2011
Telecom Italia S.p.A. 4.5% 750 million euros .....	Euro	750	01/28/2011

(1) Net of repayments by the company for 209 million euros during the years 2009-2011.

<u>Buybacks</u>	<u>Currency</u>	<u>Amount (millions of original currency)</u>	<u>Buyback period</u>
Telecom Italia Finance S.A., 1,791 million euros 7.50%, maturing April 2011(*) .....	Euro	93	January – March 2011
Telecom Italia Finance S.A. 801 million euros 7.25%, maturing April 2012 .....	Euro	199	January – September 2011
Telecom Italia Finance S.A. 759 million euros 6.875%, maturing January 2013 .....	Euro	91	November – December 2011
Telecom Italia S.p.A. 1,222.5 million euros 6.25%, maturing February 2012 .....	Euro	27.5	December 2011
Telecom Italia S.p.A. 645 million euros 6.75%, maturing March 2013 .....	Euro	5	December 2011

(\*) During the years 2009 and 2010, bonds had already been bought back for 116 million euros. Therefore the total amount bought back is 209 million euros.

Medium/long-term **amounts due to banks** total 6,687 million euros (5,501 million euros at December 31, 2010), increasing 1,186 million euros partly as a result of 750 million euros drawn down from the revolving credit facility to partially cover the cash requirements for the acquisition of the LTE frequencies.

Short-term **amounts due to banks** total 1,192 million euros, increasing 319 million euros (873 million euros at December 31, 2010). Short-term amounts due to banks include 670 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term **other financial payables** amount to 837 million euros (503 million euros at December 31, 2010). They include 375 million euros of debt owed by Telecom Italia S.p.A. on the purchase of the user rights for the 800 MHz and 2600 MHz frequencies due in October 2016, 201 million euros by Telecom Italia Finance S.A. on the loan for 20,000 million Japanese yen due in 2029 and 249 million euros on the debt certificates regulated by German law denominated "Schuldschein" issued by Telecom Italia Finance S.A., maturing 2013.

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Short-term **other financial payables** amount to 527 million euros (517 million euros at December 31, 2010) and include 178 million euros of the current portion of medium/long-term other financial payables, of which 88 million euros refers to the amount owed by Telecom Italia S.p.A. on the purchase of the user rights for the 800 MHz and 2600 MHz frequencies and 76 million euros relating to Nortel Inversora S.A. Preferred Serie A Shares (these are preferred shares regulated by Argentine law, without voting rights except for specific cases stated in the relative issue conditions, repayable at pre-determined maturities according to a pre-established repayment plan. The shares are remunerated and have the right, among other things, to a base annual cumulative yield, regardless of the results for the year reported by Nortel Inversora S.A. and are therefore considered liabilities of a financial nature pursuant to IFRS adopted by the Telecom Italia Group).

Medium/long-term **finance lease liabilities** total 1,304 million euros (1,442 million euros at December 31, 2010) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 245 million euros (232 million euros at December 31, 2010).

**Hedging derivatives** relating to items classified as non-current liabilities of a financial nature amount to 2,513 million euros (2,238 million euros at December 31, 2010). Hedging derivatives relating to items classified as current liabilities of a financial nature total 196 million euros (269 million euros at December 31, 2010). Further details are provided in the Note "Derivatives".

**Non-hedging derivatives** relating to items classified as non-current liabilities of a financial nature amount to 40 million euros (74 million euros at December 31, 2010). **Non-hedging derivatives** relating to items classified as current liabilities of a financial nature amount to 36 million euros (2 million euros at December 31, 2010). These refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS. Further details are provided in the Note "Derivatives".

#### ***"Covenants", "Negative pledges" and other contract clauses in effect at December 31, 2011***

The bonds issued by the Telecom Italia Group do not contain financial covenants (e.g. ratios such a Debt/EBITDA, EBITDA/Interest etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

None of the bonds issued by the Telecom Italia Group carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which govern the bonds are in line with market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company's assets as collateral for loans ("negative pledges").

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,053 million euros (out of a total of 2,960 million euros at December 31, 2011) is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- in the event the company commits to uphold in other loan contracts, among other things, financial parameters, cross default clauses, commitments restricting the sale of goods or restrictions which are not present or are more stringent or more favorable than those granted to the EIB, then the EIB will have the

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right to request—whenever it deems that this might have negative consequences on the financial capability of Telecom Italia S.p.A.—the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question (“Clause for Inclusion”)—contemplated only on the loan extended on August 5, 2011 for an amount of 100 million euros—does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

- for all loans not secured by collateral, if the Company’s credit rating of unsubordinated and unsecured medium/long-term debt is lower than BBB for Standard & Poor’s, Baa2 for Moody’s and BBB for Fitch Ratings, the company shall immediately inform the EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia S.p.A. fails to provide the guarantees, the EIB shall have the right to demand immediate repayment of the amount disbursed. The current ratings (BBB and Baa2) did not require new guarantees or repayments of loans.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia’s credit rating, with a spread added to Euribor of between a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.

The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company’s assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in the export credit loan agreement.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control.

Such obligation, required by national legislation in matters governing qualifying rights, is firstly contained in the general authorization rights granted to Telecom Italia for the operation and the provision of the electronic communication network and for the offer of electronic communication services, besides the concession/general authorization rights granted to the subsidiary TI Media for the network operator and content supplier activities. A similar obligation is governed on the basis of the local legislation and content in the authorization/license rights of the telecommunications services in favor of the foreign subsidiaries of the Group.

Telecom Italia is also a party to agreements in which the occurrence of a change in control involves a change in or the termination of the relationship. Some non-financial agreements also contain confidentiality provisions and disclosure of the existence of a change of control clause would breach these agreements and potentially harm the Company. As a consequence, Telecom Italia avails itself of the right not to disclose these agreements, pursuant to art. 123-bis of the Italian Consolidated Financial Act, paragraph 1, letter h), second part. In other cases, the significance of the agreement is excluded.

There remain the following types of agreements, all regarding financing relationships:

- *Multi-currency revolving credit facility* (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and Telecom Italia shall be held to repay any sum disbursed (currently equal to 2,000,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders’ meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders’ agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;

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- *Revolving credit facility* (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and contemplates a structure similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders' agreement. Therefore, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining unchanged. The amount disbursed is currently 250,000,000 euros;
- *Revolving credit facility* (200,000,000 euros). The agreement was signed between Telecom Italia and Unicredit S.p.A. on December 20, 2010 and contemplates a discipline basically identical to that of the February 12, 2010 credit facility. The amount disbursed is currently 200,000,000 euros;
- *Bonds*. The regulations covering the bonds issued under the EMTN Programme by both Olivetti and Telecom Italia and bonds denominated in U.S. dollars typically provide that, in the event of mergers or transfer of all or substantially all of the assets of the issuing company or of the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default;
- *Contracts with the European Investment Bank (EIB)*. The total nominal amount is 2.95 billion euros. The contracts signed by Telecom Italia with the EIB, for an amount of 2.65 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract. Specifically:
  - the loan contract signed by Telecom Italia with EIB on August 5, 2011, for an amount of 100 million euros, and the three contracts—covered, respectively, by bank guarantees and guarantees provided by Sace S.p.A.—signed on September 26, 2011, for a total amount of 200 million euros, carry the obligation, for Telecom Italia, of promptly informing the bank about changes regarding the bylaws or its shareholders. Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the four contracts in question, a change of control is generated if a subject or group of subjects acting in concert acquires control of Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder which at the date of the contract holds, directly or indirectly, at least 13% of the voting rights in the shareholders' meeting, or (ii) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. or Mediobanca S.p.A. or their subsidiaries. Under the assumption that there is a change in control, the bank has the right to ask for the early repayment of the loan;
  - furthermore, the contracts covered by guarantees, signed on September 26, 2011, for a total amount of 200 million euros, envisage the clause for inclusion according to which in the event Telecom Italia commits to uphold in other loan contracts, among other things, financial parameters which are not present or are more stringent or more favorable than those granted to the EIB, then the EIB will have the right to request—whenever it deems that this might have negative consequences on the financial ability of Telecom Italia S.p.A.—the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

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- *Export Credit Agreement* (residual nominal amount of 37,573,952 euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change in control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due;
- *Senior Secured Syndicated Facility* (residual nominal amount of 312,464,000 Argentine pesos, equal to about 56 million euros). The contract was signed in October 2011 between BBVA Banco Francés and Tierra Argentea S.A (a wholly-owned subsidiary of the Telecom Italia Group) and provides for the repayment of the loan in 2016. The loan is guaranteed by two pledges of (i) 15,374,858 Telecom Argentina shares and (ii) 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares. The covenants established by contract, in the form of negative covenants or financial covenants, are consistent with those of syndicated loans and with local practice; there is also a change of control clause which requires the full early repayment of the loan should the Telecom Italia Group hold less than a 100% interest in Tierra Argentea S.A. or loss control of the other Argentine subsidiaries.

Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, subject to a request for the early repayment of the loan.

Finally, as of December 31, 2011, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

### ***Revolving Credit Facility***

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2011:

	As of December 31,			
	2011		2010	
	Agreed	Drawn down	Agreed	Drawn down
	(millions of euros)			
Revolving Credit Facility—expiring February 2013 .....	1.25	0.25	1.25	—
Revolving Credit Facility—expiring August 2014 .....	8.0	2.0	8.0	1.5
Revolving Credit Facility—expiring June 2012 (renewable to December 2013) .....	0.2	0.2	0.2	0.12
<b>Total</b> .....	<b>9.45</b>	<b>2.45</b>	<b>9.45</b>	<b>1.62</b>

### ***Telecom Italia's ratings***

During the course of 2011, the three rating agencies—Standard & Poor's, Moody's and Fitch Ratings—changed their outlook on Telecom Italia.

S&P's		Moody's		Fitch Ratings	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB	Negative	Baa2	Negative	BBB	Negative

## **NOTE 16—FINANCIAL RISK MANAGEMENT**

### ***Financial risk management objectives and policies of the Telecom Italia Group***

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterparty with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.



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These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activity of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Telecom Italia Group are described below.

### ***Identification of risks and analyses***

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group's operating activities, the optimum combination of (medium/long-term) non-current financial liabilities has been established, on the basis of the nominal amount, in the range 65% – 75% for the fixed-rate component and 25% – 35% for the variable-rate component.

In managing market risk, the Group adopted a "Guideline policy for debt management using derivative instruments" and mainly uses the following:

- Interest Rate Swaps (IRS): used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or variable;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than euro—principally in U.S. dollars and British pounds—to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than euro and for the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high credit rating.

The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- the sensitivity analyses were performed by applying reasonably possible variations in the relevant risk variables to the amounts in the financial statements at December 31, 2011, assuming that such amounts are representative of the entire year;



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- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39, they are accounted for at their fair value. All fixed-rate instruments which are accounted for at amortized cost are not subject to interest rate risk as defined by IFRS7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, compensate each other almost entirely in the separate consolidated income statement for the year. Therefore, these financial instruments are not exposed to interest rate risk;
- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis;
- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

### **Exchange rate risk—Sensitivity analysis**

At December 31, 2011 and 2010, the exchange risk of the Group's loans denominated in currencies other than the functional currency of the consolidated financial statements was hedged in full. For this reason, a sensitivity analysis has not been performed on the exchange risk.

### **Interest rate risk—Sensitivity analysis**

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific undistributable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2011 the interest rates in the various markets in which the Telecom Italia Group operates had been 100 basis points higher/lower compared to that actually realized, then higher/lower finance expenses, before the tax effect, would have been recognized in the separate consolidated income statement for 42 million euros (75 million euros in 2010).

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### Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, Euro Commercial Paper and receivables on sales of securities), has been considered in the category of variable rate.

#### Total Financial liabilities (at the nominal repayment amount)

	As of December 31, 2011			As of December 31, 2010		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
	(millions of euros)					
Bonds .....	20,156	6,819	26,975	17,632	10,697	28,329
Loans and other financial liabilities .....	5,789	4,421	10,210	6,166	3,015	9,181
<b>Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities) .....</b>	<b>25,945</b>	<b>11,240</b>	<b>37,185</b>	<b>23,798</b>	<b>13,712</b>	<b>37,510</b>
<b>Total current financial liabilities(*) .....</b>	<b>57</b>	<b>813</b>	<b>870</b>	<b>31</b>	<b>694</b>	<b>725</b>
<b>Total .....</b>	<b>26,002</b>	<b>12,053</b>	<b>38,055</b>	<b>23,829</b>	<b>14,406</b>	<b>38,235</b>

(\*) At December 31, 2011, variable-rate current liabilities include 276 million euros of payables to other lenders for installments paid in advance which are conventionally classified in this line item even though they are not correlated to a definite rate parameter (313 million euros at December 31, 2010).

#### Total Financial assets (at the nominal investment amount)

	As of December 31, 2011			As of December 31, 2010		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
	(millions of euros)					
Cash and cash equivalents .....	—	5,167	5,167	—	4,264	4,264
Euro Commercial Papers .....	—	219	219	—	214	214
Securities .....	125	2,233	2,358	103	2,262	2,365
Other receivables .....	777	215	992	584	133	717
<b>Total .....</b>	<b>902</b>	<b>7,834</b>	<b>8,736</b>	<b>687</b>	<b>6,873</b>	<b>7,560</b>

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

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### *Effective interest rate*

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

#### **Total Financial liabilities**

	<b>As of December 31, 2011</b>		<b>As of December 31, 2010</b>	
	<b>Adjusted carrying amount</b>	<b>Effective interest rate</b>	<b>Adjusted carrying amount</b>	<b>Effective interest rate</b>
	(millions of euros)	(%)	(millions of euros)	(%)
Bonds .....	26,874	6.00	28,131	5.88
Loans and other financial liabilities .....	10,686	4.12	9,001	4.35
<b>Total</b> .....	<b>37,560</b>	<b>5.46</b>	<b>37,132</b>	<b>5.51</b>

#### **Total Financial assets**

	<b>As of December 31, 2011</b>		<b>As of December 31, 2010</b>	
	<b>Adjusted carrying amount</b>	<b>Effective interest rate</b>	<b>Adjusted carrying amount</b>	<b>Effective interest rate</b>
	(millions of euros)	(%)	(millions of euros)	(%)
Cash and cash equivalents .....	5,167	2.52	4,264	1.19
Euro Commercial Papers .....	219	1.51	214	1.07
Securities .....	2,358	7.29	2,365	6.32
Other receivables .....	389	5.22	403	5.02
<b>Total</b> .....	<b>8,133</b>	<b>4.01</b>	<b>7,246</b>	<b>3.07</b>

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

With reference to the concept of market risk, in the broad sense, the Group has interest coupon step-ups and step-downs for certain bonds that change in relation to changes in ratings. Such mechanisms, however, do not affect interest rate exposure, as previously described above, or the determination of the current effective interest rate. Further information is provided in the Note "Financial liabilities (non-current and current)".

As for market risk management using derivatives, reference should be made to the Note "Derivatives".

### **Credit risk**

Credit risk represents the Telecom Italia Group's exposure to possible losses arising from the failure of commercial or financial counterparties to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterparty could arise or from factors more strictly technical, commercial or administrative.

The Telecom Italia Group's maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.

Provision charges for bad debts are recorded on specific credit positions that present an element of individual risk. On credit positions that do not present such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note "Trade and miscellaneous receivables and other current assets".

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For the credit risk relating to the asset components which contribute to the determination of "Net financial debt", it should be noted that the management of the Group's liquidity is guided by conservative criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period;
- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of liquidity which is expected to turn around for cash requirement purposes after a 12-month period, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits of the European companies are made with leading high-credit-quality banking and financial institutions. Investments by the companies in South America are made with leading local counterparts. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there are investments in Euro Commercial Paper (the issuers all have an A- rating by S&P's and headquarters in Europe) and bonds featuring a limited level of risk. All investments have been made in accordance with the "Guideline policy for liquidity investments using financial instruments" adopted by the Telecom Italia Group in July 2009.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different banking counterparts. Consequently, there are no significant positions with any one single counterpart.

### ***Liquidity risk***

The Group pursues the objective of achieving an "adequate level of financial flexibility" which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2011, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 24 months.

13% of gross financial debt at December 31, 2011 (nominal repayment amount) will become due in the next 12 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the conditions and the interest and exchange rates in place at December 31, 2011. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

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## Financial liabilities—Maturities of contractually expected disbursements

		Maturing by December 31, of the year						
		2012	2013	2014	2015	2016	After 2016	Total
		(millions of euros)						
Bonds .....	Principal	3,131	3,449	2,912	1,801	2,250	13,432	26,975
	Interest	1,526	1,418	1,210	1,067	969	8,326	14,516
Loans and other financial liabilities ...	Principal	789	1,606	3,008	1,029	548	1,696	8,676
	Interest	284	207	109	41	32	(439)	234
Finance lease liabilities .....	Principal	230	115	176	151	135	727	1,534
	Interest	99	92	84	76	67	179	597
<b>Non-current financial liabilities(*) .....</b>	<b>Principal</b>	<b>4,150</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>37,185</b>
	<b>Interest</b>	<b>1,909</b>	<b>1,717</b>	<b>1,403</b>	<b>1,184</b>	<b>1,068</b>	<b>8,066</b>	<b>15,347</b>
Current financial liabilities .....	Principal	870	—	—	—	—	—	870
	Interest	10	—	—	—	—	—	10
<b>Total financial liabilities .....</b>	<b>Principal</b>	<b>5,020</b>	<b>5,170</b>	<b>6,096</b>	<b>2,981</b>	<b>2,933</b>	<b>15,855</b>	<b>38,055</b>
	<b>Interest</b>	<b>1,919</b>	<b>1,717</b>	<b>1,403</b>	<b>1,184</b>	<b>1,068</b>	<b>8,066</b>	<b>15,357</b>

(\*) These include hedging and non-hedging derivatives.

## Derivatives on financial liabilities—Contractually expected interest flows

		Maturing by December 31, of the year						
		2012	2013	2014	2015	2016	After 2016	Total
		(millions of euros)						
Disbursements .....		934	902	713	591	494	4,559	8,193
Receipts .....		(957)	(942)	(773)	(668)	(545)	(5,226)	(9,111)
<b>Hedging derivatives—net (receipts) disbursements ....</b>		<b>(23)</b>	<b>(40)</b>	<b>(60)</b>	<b>(77)</b>	<b>(51)</b>	<b>(667)</b>	<b>(918)</b>
Disbursements .....		—	11	8	5	2	72	98
Receipts .....		(2)	(3)	(13)	—	—	(2)	(20)
<b>Non-hedging derivatives—net (receipts) disbursements .....</b>		<b>(2)</b>	<b>8</b>	<b>(5)</b>	<b>5</b>	<b>2</b>	<b>70</b>	<b>78</b>
<b>Total net receipts .....</b>		<b>(25)</b>	<b>(32)</b>	<b>(65)</b>	<b>(72)</b>	<b>(49)</b>	<b>(597)</b>	<b>(840)</b>

## Market value of derivatives

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.

The mark-to-market calculation is determined by discounting to present value the interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.

The market value of CCIRs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRs imply the exchange of the reference interest and principal, in the respective currencies of denomination.

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## NOTE 17—DERIVATIVES

Derivative financial instruments are used by the Telecom Italia Group to hedge its exposure to foreign exchange rate risk and the change in commodity prices and the management of interest rate risk and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2011 are principally used to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRS and IRO transactions, respectively, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

The following tables present the derivative financial instruments of the Telecom Italia Group at December 31, 2011 and at December 31, 2010, by type:

Type	Hedged Risk	Notional amount at 12/31/2011	Notional amount at 12/31/2010	Spot (*) Mark-to-Market (Clean Price) at 12/31/2011	Spot (*) Mark-to-Market (Clean Price) at 12/31/2010
			(millions of euros)		
Interest rate swaps .....	Interest rate risk	3,100	5,320	9	44
Cross Currency and Interest Rate Swaps ...	Interest rate risk and currency exchange rate risk	3,257	5,648	193	(67)
<b>Total Fair Value Hedge Derivatives .....</b>		<b>6,357</b>	<b>10,968</b>	<b>202</b>	<b>(23)</b>
Interest rate swaps .....	Interest rate risk	3,370	3,370	(307)	(332)
Cross Currency and Interest Rate Swaps ...	Interest rate risk and currency exchange rate risk	10,402	10,402	56	(617)
Commodity Swap and Options .....	Commodity risk (energy)	—	10	—	2
Forward and FX Options .....	Currency exchange rate risk	1	3	—	—
<b>Total Cash Flow Hedge Derivatives .....</b>		<b>13,773</b>	<b>13,785</b>	<b>(251)</b>	<b>(947)</b>
<b>Total Non-Hedge Accounting Derivatives .....</b>		<b>730</b>	<b>630</b>	<b>(22)</b>	<b>(59)</b>
<b>Total Telecom Italia Group Derivatives ....</b>		<b>20,860</b>	<b>25,383</b>	<b>(71)</b>	<b>(1,029)</b>

(\*) Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.

The hedge of cash flows by derivatives designated as cash flow hedges was considered highly effective and at December 31, 2011 led to:

- recognition in equity of unrealized income of 293 million euros;
- reversal from equity to the separate consolidated income statement of net gains from exchange rate adjustments for 333 million euros.

Furthermore, at December 31, 2011, the total loss of the hedging instruments that is still recognized in equity amounts to 14 million euros as a result of the effect of transactions early terminated over the years. The negative impact reversed to the separate consolidated income statement during 2011 is 6 million euros.

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The transactions hedged by cash flow hedges will generate cash flows and will produce economic effects in the separate consolidated income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (millions)	Start of period	End of period	Rate applied	Interest period
USD .....	2,000	Jan 2012	Nov 2013	5.25%	Semiannually
Euro .....	120	Jan 2012	Nov 2015	3-month Euribor + 0.66%	Quarterly
GBP .....	500	Jan 2012	Dec 2015	5.625%	Annually
GBP .....	850	Jan 2012	June 2019	6.375%	Annually
GBP .....	400	Jan 2012	May 2023	5.875%	Annually
USD .....	186	Jan 2012	Oct 2029	5.45%	Semiannually
USD .....	1,000	Jan 2012	Nov 2033	6.375%	Semiannually
USD .....	1,000	Jan 2012	July 2036	7.20%	Semiannually
Euro .....	500	Jan 2012	July 2013	3-month Euribor + 0.63%	Quarterly
USD .....	1,000	Jan 2012	June 2018	6.999%	Semiannually
USD .....	1,000	Jan 2012	June 2038	7.721%	Semiannually
Euro .....	400	Jan 2012	June 2016	3-month Euribor + 0.79%	Quarterly
Euro .....	1,500	Jan 2012	Aug 2014	1-month Euribor + 0.1575%	Monthly
Euro .....	350	Jan 2012	Mar 2014	6-month EIB + 0.29%	Semiannually
Euro .....	400	Jan 2012	Sept 2013	3-month EIB + 0.15%	Quarterly
Euro .....	100	Jan 2012	Dec 2013	6-month Euribor -0.023%	Semiannually
GBP .....	750	Jan 2012	Dec 2017	3.72755%	Annually
USD .....	1,000	Jan 2012	June 2014	6.175%	Semiannually
USD .....	1,000	Jan 2012	June 2019	7.175%	Semiannually
USD .....	1,000	Jan 2012	Sept 2034	6%	Semiannually

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the separate consolidated income statement from designated cash flow hedge derivatives during 2011 is equal to 11 million euros positive.

## NOTE 18—SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

### Measurement at fair value

The majority of non-current financial liabilities of the Telecom Italia Group are composed of bonds, the fair value of which can be easily determined by reference to financial instruments which, in terms of size and diffusion among investors, are commonly traded on the relative markets (please refer to the Note "Financial Liabilities—non-current and current"). However, as concerns other types of financing, the following assumptions have been made in order to determine fair value:

- for variable-rate loans: the nominal repayment amount has been assumed;
- for fixed-rate loans: fair value has been assumed as the present value of future cash flows using market interest rates prevailing at December 31, 2011.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. The fair value hierarchy introduces three levels of input:

- Level 1: quoted prices in active market;



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- Level 2: prices calculated using observable market inputs;
- Level 3: prices calculated using inputs that are not based on observable market data.

The following tables set out, for assets and liabilities at December 31, 2011 and 2010 and in accordance with the categories established by IAS 39, the supplementary disclosure on financial instruments required by IFRS 7 and the schedules of gains and losses.

#### Key for IAS 39 categories

	Acronym
Loans and Receivables .....	LaR
Financial assets Held-to-Maturity .....	HtM
Financial assets Available-for-Sale .....	AfS
Financial Assets/Liabilities Held for Trading .....	FAHfT and FLHfT
Financial Liabilities at Amortized Cost .....	FLAC
Hedging Derivatives .....	HD
Not applicable .....	n.a.

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## Carrying amount for each class of financial asset/liability at December 31, 2011

				Amounts recognized in the financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2011	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
(millions of euros)								
<b>Assets</b>								
<b>Non-current financial assets</b>								
Other investments .....	AfS	8	38	—	26	12	—	—
Securities, financial receivables and other non-current financial assets								
<i>of which loans and receivables</i> .....	LaR	9	56	56	—	—	—	—
<i>of which securities</i> .....	AfS	9	12	—	—	12	—	—
<i>of which hedging derivatives</i> .....	HD	9	2,701	—	—	2,181	520	—
<i>of which non- hedging derivatives</i> .....	FAHfT	9	27	—	—	—	27	—
<i>of which receivables for lease contracts</i> ...	n.a.	9	153	—	—	—	—	153
Miscellaneous receivables and other non-current assets(*)								
<i>of which loans and receivables</i> .....	LaR	10	349	339	10	—	—	—
		(A)	3,336	395	36	2,205	547	153
<b>Current financial assets</b>								
Trade and miscellaneous receivables and other current assets(*)								
<i>of which loans and receivables</i> .....	LaR	13	6,632	6,632	—	—	—	—
Securities								
<i>of which available-for-sale</i> .....	AfS	9	1,006	—	—	1,006	—	—
<i>of which held for trading</i> .....	FAHfT	9	1	—	—	—	1	—
Financial receivables and other current financial assets								
<i>of which loans and receivables</i> .....	LaR	9	79	79	—	—	—	—
<i>of which hedging derivatives</i> .....	HD	9	244	—	—	153	91	—
<i>of which non-hedging derivatives</i> .....	FAHfT	9	24	—	—	—	24	—
<i>of which receivables for lease contracts</i> ...	n.a.	9	115	—	—	—	—	115
Cash and cash equivalents .....	LaR	9	6,714	6,714	—	—	—	—
		(B)	14,815	13,425	—	1,159	116	115
<b>Total</b> .....		(A + B)	18,151	13,820	36	3,364	663	268
<b>Liabilities</b>								
<b>Non-current financial liabilities</b>								
<i>of which liabilities at amortized cost(**)</i> ..	FLAC/HD	15	32,003	32,003	—	—	—	—
<i>of which hedging derivatives</i> .....	HD	15	2,513	—	—	2,332	181	—
<i>of which non-hedging derivatives</i> .....	FLHfT	15	40	—	—	—	40	—
<i>of which financial lease liabilities</i> .....	n.a.	15	1,304	—	—	—	—	1,304
		(C)	35,860	32,003	—	2,332	221	1,304
<b>Current financial liabilities</b>								
<i>of which liabilities at amortized cost(**)</i> ..	FLAC/HD	15	5,614	5,614	—	—	—	—
<i>of which hedging derivatives</i> .....	HD	15	196	—	—	166	30	—
<i>of which non-hedging derivatives</i> .....	FLHfT	15	36	—	—	—	36	—
<i>of which financial lease liabilities</i> .....	n.a.	15	245	—	—	—	—	245
Trade and miscellaneous payables and other current liabilities(*)								
<i>of which liabilities at amortized cost</i> .....	FLAC	22	7,388	7,388	—	—	—	—
		(D)	13,479	13,002	—	166	66	245
<b>Total</b> .....		(C + D)	49,339	45,005	—	2,498	287	1,549

(\*) Part of assets or liabilities falling under the scope of IFRS 7.

(\*\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Comparison between carrying amount and fair value for each class of financial asset/liability at December 31, 2011**

		Amounts recognized in the financial statements according to IAS 39					Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2011
IAS 39 categories	Carrying amounts in financial statements at 12/31/2011	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement			
(millions of euros)								
<b>Assets</b>								
Loans and receivables . . . .	LaR	13,830	13,820	10	—	—	—	13,830
Available-for-sale financial assets . . . . .	AfS	1,056	—	26	1,030	—	—	1,056
Financial assets at fair value through profit or loss held for trading . . .	FAHfT	52	—	—	—	52	—	52
<i>Of which non-hedging derivatives . . . . .</i>	<i>FAHfT</i>	<i>51</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>51</i>	<i>—</i>	<i>51</i>
Hedging derivatives . . . . .	HD	2,945	—	—	2,334	611	—	2,945
Assets measured according to IAS 17 . . .	n.a.	268	—	—	—	—	268	268
<b>Total . . . . .</b>		<b>18,151</b>	<b>13,820</b>	<b>36</b>	<b>3,364</b>	<b>663</b>	<b>268</b>	<b>18,151</b>
<b>Liabilities</b>								
Financial liabilities at amortized cost(*) . . . . .	FLAC/HD	45,005	45,005	—	—	—	—	42,576
Financial liabilities at fair value through profit or loss held for trading . . .	FLHfT	76	—	—	—	76	—	76
<i>Of which non-hedging derivatives . . . . .</i>	<i>FLHfT</i>	<i>76</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>76</i>	<i>—</i>	<i>76</i>
Hedging derivatives . . . . .	HD	2,709	—	—	2,498	211	—	2,709
Liabilities measured according to IAS 17 . . .	n.a.	1,549	—	—	—	—	1,549	1,600
<b>Total . . . . .</b>		<b>49,339</b>	<b>45,005</b>	<b>—</b>	<b>2,498</b>	<b>287</b>	<b>1,549</b>	<b>46,961</b>

(\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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## Hierarchy levels for each class of financial asset/liability at fair value at December 31, 2011

			Hierarchy levels			
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2011 (millions of euros)	Level 1(*)	Level 2(*)	Level 3(*)
<b>Assets</b>						
<b>Non-current financial assets</b>						
Other investments .....	AfS	8	38	2	10	—
Securities, financial receivables and other non-current financial assets						
<i>of which securities</i> .....	AfS	9	12	12	—	—
<i>of which hedging derivatives</i> .....	HD	9	2,701	—	2,701	—
<i>of which non-hedging derivatives</i> ...	FAHfT	9	27	—	27	—
(A)			2,778	14	2,738	—
<b>Current financial assets</b>						
<b>Securities</b>						
<i>of which available-for-sale</i> .....	AfS	9	1,006	1,006	—	—
<i>of which held for trading</i> .....	FAHfT	9	1	—	1	—
Financial receivables and other current financial assets						
<i>of which hedging derivatives</i> .....	FAHfT	9	244	—	244	—
<i>of which non-hedging derivatives</i> ...	HD	9	24	—	24	—
(B)			1,275	1,006	269	—
Total .....	(A + B)		4,053	1,020	3,007	—
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
<i>of which hedging derivatives</i> .....	HD	15	2,513	—	2,513	—
<i>of which non- hedging derivatives</i> ...	FLHfT	15	40	—	40	—
(C)			2,553	—	2,553	—
<b>Current liabilities</b>						
<i>of which hedging derivatives</i> .....	FLHfT	15	196	—	196	—
<i>of which non-hedging derivatives</i> ...	HD	15	36	—	36	—
(D)			232	—	232	—
Total .....	(C + D)		2,785	—	2,785	—

(\*) Level 1: quoted prices (unadjusted) in active markets.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3: inputs that are not based on observable market data.

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## Carrying amount for each class of financial asset/liability at December 31, 2010

				Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2010	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
(millions of euros)								
Assets								
Non-current financial assets								
Other investments	AfS	8	43	—	26	17	—	—
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	9	120	120	—	—	—	—
of which securities	AfS	9	13	—	—	13	—	—
of which hedging derivatives	HD	9	1,524	—	—	1,071	453	—
of which non- hedging derivatives	FAHfT	9	7	—	—	—	7	—
of which receivables for lease contracts	n.a.	9	199	—	—	—	—	199
Miscellaneous receivables and other non-current assets(*)								
of which loans and receivables	LaR	10	249	214	35	—	—	—
		(A)	2,155	334	61	1,101	460	199
Current financial assets								
Trade and miscellaneous receivables and other current assets(*)								
of which loans and receivables	LaR	13	6,686	6,686	—	—	—	—
Securities								
of which available-for-sale	AfS	9	1,316	—	—	1,316	—	—
of which held for trading	FAHfT	9	—	—	—	—	—	—
Financial receivables and other current financial assets								
of which loans and receivables	LaR	9	27	27	—	—	—	—
of which non-hedging derivatives	FAHfT	9	4	—	—	—	4	—
of which hedging derivatives	HD	9	335	—	—	106	229	—
of which receivables for lease contracts	n.a.	9	72	—	—	—	—	72
Cash and cash equivalents	LaR	9	5,526	5,526	—	—	—	—
		(B)	13,966	12,239	—	1,422	233	72
Total		(A + B)	16,121	12,573	61	2,523	693	271
Liabilities								
Non-current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	30,594	30,594	—	—	—	—
of which hedging derivatives	HD	15	2,238	—	—	1,950	288	—
of which non-hedging derivatives	FLHfT	15	74	—	—	—	74	—
of which financial lease liabilities	n.a.	15	1,442	—	—	—	—	1,442
		(C)	34,348	30,594	—	1,950	362	1,442
Current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	6,379	6,379	—	—	—	—
of which non-hedging derivatives	FLHfT	15	2	—	—	—	2	—
of which hedging derivatives	HD	15	269	—	—	122	147	—
of which financial lease liabilities	n.a.	15	232	—	—	—	—	232
Trade and miscellaneous payables and other current liabilities(*)								
of which liabilities at amortized cost	FLAC	22	7,497	7,497	—	—	—	—
		(D)	14,379	13,876	—	122	149	232
Total		(C + D)	48,727	44,470	—	2,072	511	1,674

(\*) Part of assets or liabilities falling under the scope of IFRS 7.

(\*\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Comparison between carrying amount and fair value for each class of financial asset/liability at December 31, 2010**

			Amounts recognized in the financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2010
IAS 39 categories	Carrying amounts in financial statements at 12/31/2010	Amortized cost	Fair value taken to equity		Fair value recognized in the income statement			
			Cost					
(millions of euros)								
<b>Assets</b>								
Loans and receivables .....	LaR	12,608	12,573	35	—	—	—	12,608
Available-for-sale financial assets .....	AfS	1,372	—	26	1,346	—	—	1,372
Financial assets at fair value through profit or loss held for trading .....	FAHfT	11	—	—	—	11	—	11
<i>Of which non-hedging derivatives .....</i>	<i>FAHfT</i>	11	—	—	—	11	—	11
Hedging derivatives .....	HD	1,859	—	—	1,177	682	—	1,859
Assets measured according to IAS 17 .....	n.a.	271	—	—	—	—	271	271
<b>Total .....</b>		<b>16,121</b>	<b>12,573</b>	<b>61</b>	<b>2,523</b>	<b>693</b>	<b>271</b>	<b>16,121</b>
<b>Liabilities</b>								
Financial liabilities at amortized cost(*) .....	FLAC/HD	44,470	44,470	—	—	—	—	44,494
Financial liabilities at fair value through profit or loss held for trading .....	FLHfT	76	—	—	—	76	—	76
<i>Of which non-hedging derivatives .....</i>	<i>FLHfT</i>	76	—	—	—	76	—	76
Hedging derivatives .....	HD	2,507	—	—	2,072	435	—	2,507
Liabilities measured according to IAS 17 .....	n.a.	1,674	—	—	—	—	1,674	2,083
<b>Total .....</b>		<b>48,727</b>	<b>44,470</b>	<b>—</b>	<b>2,072</b>	<b>511</b>	<b>1,674</b>	<b>49,160</b>

(\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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## Fair value hierarchy level for each class of financial asset/liability at December 31, 2010

				Hierarchy levels		
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2010	Level 1(*)	Level 2(*)	Level 3(*)
			(millions of euros)			
<b>Assets</b>						
Non-current financial assets						
Other investments .....	AfS	8	43	3	14	—
Securities, financial receivables and other non-current financial assets of which						
securities .....	AfS	9	13	13	—	—
of which hedging derivatives .....	HD	9	1,524	—	1,524	—
of which non-hedging derivatives .....	FAHfT	9	7	—	7	—
	(A)		1,587	16	1,545	—
<b>Current financial assets</b>						
Securities of which available-for-sale .....	AfS	9	1,316	1,316	—	—
Financial receivables and other current financial assets						
of which non-hedging derivatives .....	FAHfT	9	4	—	4	—
of which hedging derivatives .....	HD	9	335	—	335	—
	(B)		1,655	1,316	339	—
Total .....	(A + B)		3,242	1,332	1,884	—
<b>Liabilities</b>						
<b>Non-current financial liabilities</b>						
of which hedging derivatives .....	HD	15	2,238	—	2,238	—
of which non- hedging derivatives .....	FLHfT	15	74	—	74	—
	(C)		2,312	—	2,312	—
<b>Current financial liabilities</b>						
of which non-hedging derivatives .....	FLHfT	15	2	—	2	—
of which hedging derivatives .....	HD	15	269	—	269	—
	(D)		271	—	271	—
Total .....	(C + D)		2,583	—	2,583	—

(\*) Level 1: quoted prices (unadjusted) in active markets.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3: input that are not based on observable market data.

## Gains and losses by IAS 39 category—Year 2011

	IAS 39 categories	Net gains/(losses), 2011(1) (millions of euros)	Of which interest
Loans and receivables .....	LaR	(419)	195
Available-for-sale financial assets .....	AfS	45	—
Financial assets and liabilities at fair value through profit or loss held for trading .....	FAHfT/FLHfT	52	—
Financial liabilities at amortized cost .....	FLAC	(1,847)	(1,813)
<b>Total .....</b>		<b>(2,169)</b>	<b>(1,618)</b>

1) Of which, 3 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.



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## Gains and losses by IAS 39 category—Year 2010

	IAS 39 categories	Net gains/(losses), 2010 (1) (millions of euros)	Of which interest
Loans and receivables .....	LaR	(376)	114
Available-for-sale financial assets .....	AfS	60	—
Financial assets and liabilities at fair value through profit or loss held for trading .....	FAHfT/FLHfT	(49)	—
Financial liabilities at amortized cost .....	FLAC	(1,994)	(1,936)
<b>Total</b> .....		<b>(2,359)</b>	<b>(1,822)</b>

1) Of which, 3 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

## NOTE 19—EMPLOYEE BENEFITS

Employee benefits decreased 281 million euros compared to December 31, 2010 and are composed of the following:

		As of December 31, 2009	Change in the scope of consolidation Argentina BU	Provision charges/ present value	Decreases	As of December 31, 2010
			(millions of euros)			
<b>Provision for employee severance indemnities</b> .....	<b>(A)</b>	<b><u>1,051</u></b>	<b><u>—</u></b>	<b><u>40</u></b>	<b><u>(105)</u></b>	<b><u>986</u></b>
Provision for pension plans .....		25	27	8	(1)	59
Provision for termination benefit incentives .....		<u>146</u>	<u>—</u>	<u>228</u>	<u>(99)</u>	<u>275</u>
<b>Total other provisions for employee benefits</b> .....	<b>(B)</b>	<b><u>171</u></b>	<b><u>27</u></b>	<b><u>236</u></b>	<b><u>(100)</u></b>	<b><u>334</u></b>
<b>Total</b> .....	<b>(A + B)</b>	<b><u><u>1,222</u></u></b>	<b><u><u>27</u></u></b>	<b><u><u>276</u></u></b>	<b><u><u>(205)</u></u></b>	<b><u><u>1,320</u></u></b>
<i>Of which :</i>						
<i>Non-current portion</i> .....		1,075				1,129
<i>Current portion*</i> .....		147				191

\* The current portion refers only to Other provisions for employees benefits.

		As of December 31, 2010	Provision charges/ present value	Decreases	Exchange differences and reclassifi- cations	As of December 31, 2011
			(millions of euros)			
Provision for employee severance indemnities .....	(A)	986	(75)	(82)	—	829
Provision for pension plans .....		59	(3)	(1)	(34)	21
Provision for termination benefit incentives .....		275	19	(105)	—	189
Total other provisions for employee benefits .....	(B)	334	16	(106)	(34)	210
Total .....	(A + B)	1,320	(59)	(188)	(34)	1,039
Of which :						
Non-current portion .....		1,129				850
Current portion* .....		191				189

\* The current portion refers only to Other provisions for employees benefits.

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**Provision for employee severance indemnities** refers only to the Italian companies of the Group and decreased in total by 157 million euros; the reduction of 82 million euros refers to indemnities paid to employees who terminated employment or for advances. The negative change of 75 million euros in the “Provision charges/ present value” column is the sum of the following:

- +42 million euros for provision charges for interest accruing during the year;
- -117 million euros for the total effect on employee severance indemnities deriving from: higher discount rate—taken as the return on 10-year government securities, change in inflation rate considered as well as the new law on pensions, Law 214 of December 22, 2011, which extends the estimated period in which a person works.

According to national law, the amount to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-prescribed interest earned. The liability is not associated with any vesting condition or period or any funding obligation; hence, there are no assets servicing the provision.

Under the regulations introduced by Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a “Defined contribution plan”.

However, for all companies, the revaluations of the amounts in the provision for employee severance indemnities existing at the election date, and also the amounts accrued and not assigned to supplementary pension plans for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In accordance with IAS 19, this provision has been recognized as a “Defined benefit plan”.

Under IAS 19, employee severance indemnities have been recalculated with actuarial techniques using the Projected Unit Credit Cost Method as follows:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.). The estimate of future benefits includes any increases for additional service seniority as well as the estimated increase in the compensation level at the measurement date—only for employees of companies with less than 50 employees during the year 2006;
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and the probability that each benefit has to be effectively paid;
- the liability of each interested company has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees during the year 2006) or identifying the amount of the average present value of future benefits which refer to the past service already matured by the employee in the company at the measurement date (for the others).

The following assumptions have been made:

Financial assumptions	Executives	Non executives
Inflation rate .....	2.0% per annum	2.0% per annum
Discount rate .....	5.1% per annum	5.1% per annum
Increase in compensation		
• equal to or less than 40 years of age .....	1.0% per annum	1.0% per annum
• over 40 but equal to or less than 55 years of age .....	0.5% per annum	0.5% per annum
• over 55 years of age .....	0.0% per annum	0.0% per annum

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<u>Demographic assumptions</u>	<u>Executives</u>	<u>Non executives</u>
Probability of death .....	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"
Probability of disability .....	INPS tables divided by age and sex	INPS tables divided by age and sex
Probability of resignation (in relation to the company):		
– up to 40 years of age .....	From 3.0% to 5.0% per annum	From 1.5% to 4.0% per annum
– over 40 up to 50 years of age ....	From 1.5% to 4.0% per annum	From 0.5% to 2.5% per annum
– over 50 years of age .....	none	none
Probability of retirement: .....	Reaching the minimum requisites established by the Obligatory General Insurance updated on the basis of Law 214 of December 22, 2011	
Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70% ....	3.0% per annum	3.0% per annum

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2011 of 829 million euros (986 million euros at the end of 2010).

The effect on the separate consolidated income statement, included in employee benefits expenses, is as follows:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>(millions of euros)</u>		
Current service cost (*) .....	—	—	—
Finance expenses (**) .....	42	44	67
Net actuarial (gains) losses recognized during the year .....	(117)	(4)	(15)
<b>Total (income) expense .....</b>	<b>(75)</b>	<b>40</b>	<b>52</b>
<b>Effective return on plan assets .....</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

(\*) Following the social security reform, the portions intended for the INPS Treasury Fund or for the supplementary pension funds have been recorded under "Employee benefits expense" in "Social security expenses" and not as "Employee severance indemnity expenses". The latter account will still be used only for the severance indemnity expenses of companies with less than 50 employees (equal to 0.4 million euros in 2011 compared to 0.5 million euros in 2010).

(\*\*) Finance expenses include the portion relating to the company Loquendo for nine months of the year.

The change in expenses compared to the prior year is attributable mainly to the revision of the discount rate and the inflation rate used in the actuarial appraisal, to the new pension reform and to the reduction in employees.

**Provisions for pension plans** principally refer to pension plans operating in foreign companies of the Group.

**Provisions for termination benefit incentives** decreased in total by 86 million euros, mainly due to the utilization during the year of the provision for mobility under Law 223/91 by the Parent, Telecom Italia, Telecom Italia Sparkle, Shared Service Center ("SSC"), Olivetti and Olivetti I-Jet. The utilization was offset in part by the reversal of the present value calculation of the 2010 provision and the addition to the provision of a further 12 million euros, of which 9 million euros refers to Telecom Italia S.p.A. and 3 million euros to the company SSC. There are also provision charges by other Group companies operating in foreign countries for about 7 million euros.

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## NOTE 20—PROVISIONS

Provisions decreased 21 million euros compared to December 31, 2010 and are composed of the following:

	As of December 31, 2010	Increase	used through income statement (millions of euros)	Uses directly	Exchange differences and other changes	As of December 31, 2011
Provision for taxation and tax risks ....	163	28	—	(31)	(11)	149
Provision for restoration costs .....	459	15	—	(10)	(9)	455
Provision for legal disputes .....	333	167	(1)	(167)	7	339
Provision for commercial risks .....	63	9	(2)	(6)	(1)	63
Provision for risks and charges on investments and corporate—related transactions .....	115	15	(2)	(8)	(4)	116
Other provisions .....	138	3	(1)	(8)	(4)	128
<b>Total .....</b>	<b>1,271</b>	<b>237</b>	<b>(6)</b>	<b>(230)</b>	<b>(22)</b>	<b>1,250</b>
<i>Of which :</i>						
<i>Non-current portion .....</i>	<i>860</i>					<i>831</i>
<i>Current portion .....</i>	<i>411</i>					<i>419</i>

**Provision for taxation and tax risks** shows a net reduction of 14 million euros and mainly include the provision charge of 10 million euros posted by Telecom Italia S.p.A. for taxes, interest and fines relating to the risk of the recovery of VAT deducted on supply transactions for the lease and/or sale of assets, which are the subject of criminal proceedings before the Monza Public Prosecutor's Office (described in greater detail in the Note "Contingent liabilities, other information, commitments and guarantees").

**Provision for restoration costs** refers to the provision for the estimated cost to dismantle tangible assets and restore the sites used by Telecom Italia S.p.A., the companies of the Brazil Business Unit and the companies of the Argentina Business Unit. The amount is more or less in line with that at the end of the prior year.

**Provision for legal disputes** includes the provision for litigation with employees, social security entities and third parties and shows a balance mainly reflecting that at December 31, 2010. The provision charges in 2011 have been recorded for the most part by the companies in the Brazil Business Unit (62 million euros), the companies in the Argentina Business Unit (55 million euros) and Telecom Italia S.p.A. (47 million euros).

**Other provisions** largely comprise the provision set aside in prior years for the Telecom Italia Sparkle case in the amount of 86 million euros and the provision for the liberalization of frequencies and proceedings of a regulatory nature with AGCom and the Antitrust Authority.

## NOTE 21—MISCELLANEOUS PAYABLES AND OTHER NON—CURRENT LIABILITIES

**Miscellaneous payables and other non-current liabilities** increased 70 million euros compared to December 31, 2010 and are composed of the following:

	As of December 31,	
	2011	2010
	(millions of euros)	
Payables to social security agencies .....	46	67
Capital grants .....	36	55
Deferred income .....	858	863
Income tax payables(*) .....	63	44
Other payables and liabilities .....	153	57
<b>Total .....</b>	<b>1,156</b>	<b>1,086</b>

(\*) Analyzed in Note "Income taxes".

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**Payables to social security agencies** refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

	As of December 31,	
	2011	2010
	(millions of euros)	
<b>Non-current payables</b>		
Due from 2 to 5 years after the end of the reporting period .....	28	46
Due beyond 5 years after the end of the reporting period .....	18	21
	<u>46</u>	<u>67</u>
Current payables .....	<u>23</u>	<u>76</u>
<b>Total</b> .....	<u><u>69</u></u>	<u><u>143</u></u>

**Deferred income** includes 462 million euros (513 million euros at December 31, 2010) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone service and 301 million euros (257 million euros at December 31, 2010) for the deferral of revenues from the sale of transmission capacity, referring to future years.

## NOTE 22—TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

**Trade and miscellaneous payables and other current liabilities** increased 30 million euros compared to December 31, 2010 and are composed of the following:

		As of December 31,			
		2011		2010	
		Of which Financial Instruments IAS 39		Of which Financial Instruments IAS 39	
		(millions of euros)			
Payables on construction work .....	(A)	31		23	
Trade payables:					
• Payables to suppliers .....		4,929	4,929	4,943	4,943
• Payables to other telecommunications operators .....		1,335	1,335	1,341	1,341
	(B)	6,264	6,264	6,284	6,284
Tax payables .....	(C)	773		685	
Miscellaneous payables and other current liabilities:					
• Payables for employee compensation ....		520	520	537	537
• Payables to social security agencies .....		230	—	273	—
• Trade and miscellaneous deferred income .....		909	—	871	—
• Advances received .....		19	—	27	—
• Customer-related items .....		1,081	316	1,179	360
• Payables for the "TLC operating fee" .....		70	—	48	—
• Dividends approved, but not yet paid to shareholders .....		60	60	93	93
• Other current liabilities .....		419	228	333	223
• Employee benefits (except for Employee severance indemnities) for the current portion expected to be settled within 1 year .....		189	—	190	—
• Provisions for risks and charges for the current portion expected to be settled within 1 year .....		419	—	411	—
	(D)	3,916	1,124	3,962	1,213
Total .....	(A+B+C+D)	10,984	7,388	10,954	7,497

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Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Trade payables (all due within 1 year) amounting to 6,264 million euros (6,284 million euros at December 31, 2010) mainly refer to Telecom Italia S.p.A. (3,383 million euros), the companies in the Brazil Business Unit (1,508 million euros) and the Argentina Business Unit (649 million euros).

Tax payables particularly refer to the VAT payable of Telecom Italia S.p.A. (219 million euros), the government concession tax of Telecom Italia S.p.A. (90 million euros), other tax payables of the Brazil Business Unit (264 million euros) and the Argentina Business Unit (84 million euros).

## **NOTE 23—CONTINGENT LIABILITIES, OTHER INFORMATION, COMMITMENTS AND GUARANTEES**

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at December 31, 2011 are described below.

The Telecom Italia Group has posted liabilities totalling 189 million euros for those disputes described below where the risk of loss has been considered probable.

### **a) Significant disputes and pending legal actions**

#### ***Telecom Italia Sparkle—Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Public Prosecutor's Office of Rome***

The immediate trial of the defendants currently subject to precautionary measures (among whom the former chief executive officer and two former employees of Telecom Italia Sparkle) continues. The prosecutor has accused these defendants of cross-border criminal conspiracy, tax evasion, international money laundering, reinvestment of profit from criminal activities and registration of assets under false names. The charges of cross-border criminal conspiracy, international money laundering and reinvestment of profit from criminal activities also are possible offences that may entail administrative liability for a corporation, pursuant to Legislative Decree no. 231/2001.

In relation to this trial, Telecom Italia Sparkle filed an application to bring a civil action against all the defendants. The Court ruled this application inadmissible in its hearing on December 18, 2010, since it considered such an action incompatible with the company's position as a subject of investigation pursuant to Legislative Decree no. 231/2001.

Given the complexity of the proceeding, and since it is not yet possible to have full knowledge of all the documentation related to the proceedings, at present the Company cannot yet determine its final outcome. However, while an unfavorable outcome cannot be ruled out in principle, Telecom Italia Sparkle will pursue its defense with the utmost vigor to prove its innocence in the matters at issue. Regarding the effects of a conviction under Legislative Decree 231/2001, in addition to the administrative fines (the amount of which would be low) and injunctive measures, the proceeds of the crime would be seized. According to the case made by the Prosecutor, and without considering the effect of the Company's defense arguments, such illegal profits would be 72 million euros (a sum already guaranteed and provided for in the 2009 consolidated financial statements).

Telecom Italia did not expect any additional significant financial effect in excess of the 72 million euros liabilities previously recognized in the consolidated financial statements. The Company does not believe it is exposed to material loss in excess of the amount accrued.

So far as the residual tax risk is concerned, the Italian Revenue Agency has not yet issued notices of assessment in relation to the allegations of the Finance Police relating to direct taxation (as far as indirect taxes are concerned, in July 2010 Telecom Italia Sparkle paid the fines - equal to 25% of the sum imposed - the whole of the VAT considered to be non-deductible, plus applicable interest, for an aggregate of 418 million euros). In this respect, Telecom Italia Sparkle—also based on the opinion of tax experts—concluded that the potential estimated tax charge associated with these events would be approximately 429 million euros, plus fines and interests, and that the risk of losing such a case is only possible, not probable. As a result, no provision to cover the tax risk for direct taxation has been made.

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### ***National tax disputes***

As set out in the 2010 Annual Report:

- in October 2010, the Milan Revenue Agency issued a formal notice of assessment to the subsidiary Olivetti Multiservices S.p.A. (OMS), which contested the invalid deduction of VAT in the tax years 2005 and 2006 totalling approximately 198 million euros, after recalculation of the so-called “pro-rata of non-deductibility”;
- in December 2010, the Milan Revenue Agency served Telecom Italia and OMS, as jointly obliged parties, two assessment notices relating to property transfers made in December 2005 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 61 million euros including interest and fines;
- in March 2011, the Milan Revenue Agency served Telecom Italia S.p.A and OMS with assessment notices relating to property transfers made in March 2006 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 10 million euros in tax and interest.

With respect to the assessment notices for stamp duty and mortgage tax, since these notices are final, the companies propose to appeal to the Milan Provincial Tax Commission, requesting cancellation of the notices as well as suspension of the collection proceedings currently underway. The companies have also filed an application for an internal review and suspension of the claims with the competent offices of the Milan Revenue Agency.

In February 2012, the Milan Revenue Agency filed a brief with the Milan Tax Commission in which it notified its full cancellation of all the assessment notices, declaring the consequent cessation of matters in dispute.

With respect to the formal notice relating to VAT, the Milan Revenue Agency alleged that OMS had applied an unwarranted deduction of VAT on the purchase of properties assigned to the Raissa and Spazio Industriale Funds. In relation to this matter the Company believes, with the support of the opinion of established tax experts, that it operated in full compliance with tax laws and denies the claim of the Revenue Agency. However, the risk associated with such claims was still deemed possible.

### ***International tax disputes and others***

On March 22, 2011 Tim Celular received a notice of tax assessment issued by the Brazilian Federal Tax Authorities in the total amount, at the date of the claim, of 1,265 million Reais (approximately 550 million euros), including fines and interest, upon completion of a tax audit covering the financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A. (formerly denominated Maxitel S.A.), companies which have been progressively merged in several steps into Tim Celular for the purpose of simplifying the corporate structure in Brazil.

The notice of tax assessment contains a number of matters, the most significant of which are summarized as follows:

- the disallowance of the deduction of amortization of goodwill related to the acquisition of Tele Nordeste Celular Participações S.A. (“TNC”) which was originally recorded by Bitel Participações S.A. (Bitel);
- the supposed incorrect exclusion of the goodwill previously amortized by Bitel, 1B2B and TNC, and transferred to the LALUR (*Livro de Apuração do Lucro Real*—IRPJ Taxable Income Report) of the Tim Brazil group operating companies; and
- the disallowance of the fiscal effects of the merger between Tim Nordeste Telecomunicações S.A. and Maxitel S.A.

The adjustments raised in the notice of tax assessment have been challenged by Tim Celular, before the administrative court, with the filing of an initial defence document on April 20, 2011. On April 20, 2012, Tim Celular was notified of the first level decision which maintains the assessments; Tim Celular will file the appeal within the deadline as of May 22, 2012.



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The Management of Tim Celular and Tim Participações, as supported by legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.

With regard to Tim Participações' Brazilian subsidiaries, other tax disputes cases are ongoing, including claims for significant amounts. The most relevant cases are related to the tax deductibility of the goodwill amortization, several matters of indirect taxation (mainly related to ICMS—a kind of Brazilian VAT—and the composition of its basis of calculation and the possibility to account tax credits) and regulatory contributions to the Brazilian Regulatory Agency for Telecommunications—Agência Nacional de Telecomunicações ("ANATEL") and the Brazilian Ministry of Communications—FUST and FUNTTEL Contributions,

Management believes the risk of loss is not probable (for the aforementioned companies), on the basis of legal opinions issued to the companies.

#### ***Investigation by the Public Prosecutor's Office of Monza***

Criminal proceedings are currently pending before the Public Prosecutor's Office of Monza as part of the preliminary investigation of a number of subjects, including allegations against employees of the Company, with respect to the supply under lease and/or sale of assets transactions which would constitute various offences committed against Telecom Italia, among others.

On December 16, 2011 Telecom Italia, the injured party in the aforesaid criminal proceedings, filed a complaint against persons unknown with the Public Prosecutor's Office of Monza.

However, in relation to the transactions cited by the Public Prosecutor, Telecom Italia concluded that it would not be able to recover the deducted VAT, which together with interest and fines, resulted in the setting aside of approximately 10 million euros for risk provision. The Company does not believe it is exposed to material losses in excess of the amount accrued.

#### ***Application for indictment of Telecom Italia S.p.A. for an administrative offence pursuant to Legislative Decree no. 231/2001.***

In December 2008 Telecom Italia received a notice of commencement of proceedings for administrative offenses under articles 21 and 25, paragraphs 2 and 4 of Legislative Decree 231/2001, following the investigation, by the Public Prosecutor of Milan, of former Company employees and consultants charged with a series of crimes, including—among others—the offense, under legislative decree 231/2001, of bribing public officials to obtain information from confidential archives. In May 2010, the Judge concluded that the 400,000 euros fine that the Company had agreed to pay was adequate: after this judgment, Telecom Italia was no longer a defendant in the criminal trial. At the same time, the Judge approved the motion for settlement of the proceedings presented by many other defendants, including ex-employees of the Group.

The trial phase of the proceedings, currently underway, opened in September 2010 before the second instance criminal Court of Milan. During the first hearings, Telecom Italia filed its application to be a civil party in the proceedings against all the defendants, for all the charges they are accused of, including corruption and criminal conspiracy. The Company's application to be a civil party in the proceedings was granted by the Court on January 26, 2011. Telecom Italia is also claiming damages in the proceedings against 11 persons charged with criminal conspiracy, corruption and hacking committed against 32 parties. Telecom Italia Latam and Telecom Italia Audit and Compliance Services also claim damages in the proceeding related to charges other than unlawful appropriation.



In relation to the requests that the Company indemnify third parties, it should be noted that, given the current status of the hearings and on the basis of the available information, it is possible that the Company could lose such proceedings. With respect to one case, on the basis of available information and the status of the legal proceedings, a negative outcome is considered probable. As a result an immaterial amount has been accrued in the financial statements.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions

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relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Telecom Italia Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage of their development or where claimants seek substantial or indeterminate damages.

Therefore as permitted by par. 91 of IAS 37 we have not disclosed an estimate of the financial effect, and the other information required by IAS 37 par. 86 (b) because it was not practicable to do so.

In each of the material legal proceedings and investigations, reviews and proceedings described below, unless specifically noted otherwise, it is not possible to reliably estimate with any certainty the liability, if any, or the effect these proceedings investigations and reviews, and any related developments, may have on the Telecom Italia Group. Moreover, in the case in which the disclosure of information with respect to a particular dispute or proceeding could seriously prejudice the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.

### ***Antitrust Case A426***

On May 13, 2010 AGCM, in response to a complaint by Fastweb, commenced an investigation of possible abuse by Telecom Italia of its dominant position. Fastweb alleged that Telecom Italia tried to exclude other competitors from the public tenders held in 2010 by Consip and Enel for the award of contracts for fixed telephony services and IP connectivity. In particular, according to the complaint, Telecom Italia failed to provide technical and economic information that was allegedly essential for the preparation of bids by its competitors, and provided network services to its commercial divisions at more favorable conditions than those applied to other operators.

Fastweb had previously filed a similar complaint with AGCom which dismissed the case in a note issued on May 26, 2010.

While stating that it had acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to settle the concerns set forth in the AGCM decision opening the investigation. Considering the merits of the Group's proposal, AGCM published the proposal on its website on July 29, 2011, requesting comments from interested third parties.

Telecom Italia subsequently offered amendments to the proposal of undertakings, on which interested third parties provided additional comments. Telecom Italia submitted its responses to the comments from interested third parties on both proposals.

The procedure to evaluate the undertakings is still ongoing. At present, it is not possible to express an opinion about the outcome of the proceedings.

### ***Antitrust Case A428***

On June 23, 2010, AGCM, in response to complaints by Fastweb and Wind, commenced an investigation of two possible abuses by Telecom Italia of its dominant position.

According to Wind, Telecom Italia allegedly instituted a "technical boycott", hindering or delaying the activation of access services, by means of unjustified and spurious refusals (so-called KO). Moreover, according to both complaints, Telecom Italia allegedly applied a discriminatory price policy, offering high discounts on the price of access services to final customers only in those geographic areas of Italy in which disaggregated access services to the local network are available, hence where other operators can offer greater competition. In order to substantiate their allegations, the OLOs pointed to the invitation to tender by the Florence municipal authority won by Telecom Italia in 2009. In relation to this invitation to tender AGCom, after verifying that the economic conditions of the traffic services offered by Telecom Italia could be actually matched by competitors purchasing Telecom Italia's wholesale services, notified Telecom Italia on February 1, 2011 that it had withdrawn the allegations raised at the start.

While stating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to settle the concerns set forth in the AGCM decision to open the investigation. Considering the merits of the Group's proposal, AGCM published the proposal on its website on August 5, 2011, requesting comments from interested third parties.

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On October 31, 2011, Telecom Italia submitted its responses to the comments presented by interested third parties.

On March 26, 2012, AGCM rejected the undertakings proposed by Telecom Italia; the investigation, which is continuing, is set to be concluded on September 30, 2012. At present, it is not possible to express an opinion about the outcome of the proceedings.

### ***Dispute relating to “Adjustments on licence fees” for the years 1994-1998***

Some disputes filed in the past by Telecom Italia and Tim are still pending. These relate to the Ministry of Communications’ request for payment of the balance of the amounts paid in concession charges for the years 1994-1998.

### ***FASTWEB***

In January 2011 Fastweb appointed an arbitrator in relation to its request for 146 million euros in damages, allegedly suffered after the breach by Telecom Italia of the contract for the supply of the “unbundling of the local loop” (LLU). In particular, Fastweb complained that, in the period from July 2008 to June 2010, Telecom Italia had refused, unlawfully, to execute approximately 30,000 requests to migrate customers to the Fastweb network. Telecom Italia has filed a counterclaim.

The other disputes pending before the Court of Milan (“Impresa Semplice” and “Winback”) have been settled.

### ***VODAFONE***

In July 2006 Vodafone brought a case against Telecom Italia in the Milan Court of Appeals, seeking payment of damages set originally at 525 million euros and subsequently raised to 759 million euros. Plaintiff maintains that Telecom Italia engaged in abusive conduct, due to its dominant position in fixed telephony, to strengthen its role in the contiguous mobile telephony market, with exclusionary effects to the detriment of its competitor.

Telecom Italia filed a counterclaim, fully contesting the claims of the other party.

In a judgement on November 2, 2011, the Court of Appeals declared that it was not competent to hear this matter and referred the case to the Civil Court. The terms for the resumption of the Vodafone case before the Milan Court are pending.

### ***H3G***

The following disputes with H3G remain outstanding:

- a case brought by H3G for compensation for damages of 122 million euros alleging presumed discriminatory behaviour and unfair competition by Telecom Italia against H3G in relation to fixed-mobile termination tariffs in the period 2008/2010. Telecom Italia has filed an appearance contesting the claims and submitting, alternatively, a counterclaim for 465 million euros;
- a case brought by Telecom Italia for compensation of 230 million euros for damages related to the termination charges applied to it by H3G that were higher than those applied to other operators in the period between September 2005 and February 2008;
- a case brought by H3G for compensation for presumed damages arising from the alleged discriminatory behaviour by Telecom Italia in the market for calls from its mobile network to H3G network customers. In particular, according to the complainant, Telecom Italia is accused of applying to its own sales divisions fees lower than those applied to H3G from April 2008. The damages claimed have been quantified as approximately 120 million euros. Telecom Italia has filed a reply contesting the claims and submitting a counterclaim for 260 million euros;
- a challenge by Telecom Italia before the Rome Appeal Court against the arbitration awards on the subject of mobile-mobile termination tariffs for the period between September 2005 and December 2007, which ordered Telecom Italia to pay the sum of approximately 87 million euros (of which approximately 58 million euros have been declared enforceable);

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- a case started by H3G claiming compensation for alleged damages arising from the alleged violation of the mobile customer portability procedures. The damages claimed have been quantified as approximately 60 million euros. Telecom Italia has filed a reply contesting the claims and submitting a counterclaim for 20 million euros;
- an injunction sought by Telecom Italia to recover approximately 21 million euros for additional costs paid to H3G for the period from July 2010 to February 2011, after the repricing of the termination tariffs on the H3G mobile network (resolution 667/08/Cons).

### ***Federazione Anti Pirateria Audiovisiva (FAPAV)***

In June 2010, antipiracy group Federazione Anti Pirateria Audiovisiva (FAPAV) commenced proceedings against Telecom Italia in the Rome Court claiming 320 million euros of damages allegedly resulting from its non-prevention of the illicit downloading of films by customers of the Company accessing certain websites. According to the claimant, Telecom Italia did not adopt the necessary technical and administrative measures to prevent the illegal use of its network. FAPAV also asked that the Company provide the Judicial Authorities with information that identifies the customers involved in the alleged unlawful activities.

These proceedings follow a pre-trial procedure at the end of which the Rome Court excluded both any liability of Telecom Italia for the information it carries, and the obligation to suspend the internet access service of which Telecom Italia is merely supplier. The Court ordered the Company to supply all the information in its possession on the alleged unlawful activity and other information that identifies the subjects involved.

Telecom Italia, which has complied with the order filed a reply asking that the claims of the other party be rejected in their entirety. The Italian association of authors and publishers (SIAE) has joined these proceedings to support FAPAV's position.

### ***WIND***

In a writ issued in January 2012 Wind commenced proceedings against Telecom Italia claiming damages (90 million euros) arising from alleged unfair competition caused by Telecom Italia's refusal to activate service requests in the period July 2009 - October 2010; the plaintiff's main complaint alleges that such strategy of unfair competition was enacted by Telecom Italia both through alleged "technical boycotting" of service activation requests, and through offers and discounts tailored to customers interested in Wind's offers. Such conduct, with which Telecom Italia has been charged, has previously been the subject of complaints by Wind and Fastweb before the Anti-trust authority, which initiated proceedings A428. Telecom Italia filed a reply challenging the claims made by Wind.

### ***EUTELIA and VOICEPLUS***

In June 2009, Eutelia and Voiceplus filed a complaint alleging Telecom Italia's abuse of dominant position in the premium service market (involving the offering to the public of services through so-called Non Geographical Numbers). Plaintiffs sought compensation of approximately 730 million euros for losses suffered.

The Milan Court of Appeals issued an injunction ordering Telecom Italia to cease the alleged abuses in the Company's business relations with Eutelia and Voiceplus, relating to the Non Geographic Numbers for which Telecom Italia managed the revenues from the end customers on behalf of such OLOs and according to regulatory requirements. Telecom Italia filed a reply, asking that the request for damages be rejected in its entirety.

### ***TELEUNIT***

On October 29, 2009 Teleunit filed a complaint before the Court of Appeal of Milan alleging Telecom Italia's abuse of dominant position in the premium service market (involving the offering to the public of services through so-called Non Geographical Numbers and Telecom Italia's regulatory obligation to collect payments, on behalf of these OLOs, from end users). Plaintiff sought damages of approximately 362 million euros for the losses incurred. Telecom Italia has filed a formal reply to dispute plaintiff's claims.

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## **POSTE**

Certain action brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, in relation to non-payment by Poste for services rendered under contracts to supply IT goods and services are still pending. The outcome of the lower court's judgments was partially favorable to Telecom Italia. The judgments have been appealed by Poste in individual rehearings.

Following these rehearings, a judgment of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, while another judgment of the same Court voided one of the disputed contracts. After this judgment, Poste filed a claim for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgment of the Italian Supreme Court considering amendment of the above judgment is still pending.

In its opposition and appeal for suspension of execution, Telecom Italia argued that it had not been ordered to pay specific restitution at that time, and hence there was no valid right to execute the judgment. Accepting this argument, the Rome Court suspended execution.

## **Gruppo Elitel Telecom S.p.A.**

A dispute was recently started in Rome by Fallimento Elinet S.p.A. against its former administrators, auditors and auditing companies as well as against Telecom Italia, in relation to which claims were formulated regarding the alleged performance by Telecom Italia, of management and co-ordination activities of the Elitel Group (alternative operator present on the market, in which the Company has never had any type of interest), allegedly also enacted by playing the card of trade receivables management. The receiverships of Elitel s.r.l. and of Elitel Telecom S.p.A. (at the time the parent company of the Elitel Group) were also party to these proceedings. The economic claims advanced by the three receiverships amount to a total of 282 million euros. Telecom Italia filed a reply, challenging the claims of the plaintiffs.

## **Greece—DELAN**

During 2009, Carothers Ltd., as successor of Delan Cellular Services SA ("**Delan**"), started legal proceedings, seeking interim injunctive measures and on the merits, against Wind Hellas before the Greek courts. Wind Hellas in turn served Telecom Italia International with an impleader for compulsory intervention, allegedly on the basis of the indemnification obligations contained in the stock purchase agreement for the sale of the Greek subsidiary by Telecom Italia. The hearing for the pleading of the cases against Wind Hellas and against Telecom Italia International on the basis of the indemnity provisions was held on June 1, 2011. After the hearing on the merits of both the case commenced by Carothers Ltd. against Wind Hellas and the case commenced by Wind Hellas against Telecom Italia International based on the alleged indemnification obligations contained in the related stock purchase agreement for the sale of Wind Hellas by Telecom Italia, the Judge determined that the court lacked jurisdiction on Telecom Italia International (whose contractual indemnification obligation falls under the law of New York and is subject to arbitration), while ordering Wind Hellas to pay damages to Carothers for an overall amount of approximately 85 million euros (including costs and interests accrued).

## **Germany—AOL arbitration**

In October 2011 Telecom Italia, TIDE and AOL signed a settlement agreement for the termination, free of any payment by the Group, of arbitration proceedings brought by AOL LLC and AOL Europe Sarl for reimbursement of damages exceeding 2 million euros and regarding the AOL's broadband activities in Germany. In December 2011 the Arbitration Panel terminated the proceedings.

## **Germany—Telefónica arbitration**

On February 23, 2012, Telecom Italia and Telecom Italia Deutschland Holding GmbH ("**TIDE**") entered into a settlement with Telefónica Germany, aimed at preventing a potential litigation related to compensation claims proposed by Telefónica in connection with the share purchase agreement for the sale of the holding in HanseNet, signed by the Group in 2009, as well as resolving the arbitration started in 2011 by Telefónica against Telecom Italia and TIDE. On the basis of such agreement, a capital amount of approximately 40 million euros formerly deposited in escrow was withdrawn by Telecom Italia, while approximately 4.5 million euros were paid to

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Telefónica and approximately 16 million euros retained in escrow to cover certain potential future liabilities. On the basis of such arrangements Telefónica has withdrawn the aforementioned request for arbitration. Thereafter, the arbitration panel ordered the closing of the proceeding.

## **b) Other information**

### ***Dispute concerning the license fee for 1998***

Telecom Italia has issued proceedings against the *Presidenza del Consiglio dei Ministri* (the office of the Prime Minister) before the Rome Court for damages caused by the Italian State through appeal judgment No. 7506/09 by the *Consiglio di Stato* (Council of State) that, according to Company, violates the principles of EU law.

The main claim is based on EU case law that recognizes the right to claim liability of the State for violation of rights protected by EU law and breached by a final judgment, in respect of which no other remedy may be applied. The aforementioned final appeal judgment denied Telecom Italia's right to restitution of the license fee for 1998 (386 million euros for Telecom Italia and 143 million euros for Tim, plus interest). Telecom Italia's request had, already been rejected by the Lazio Regional Administrative Court despite the favorable binding opinion of the European Court ("ECJ") of Justice on February 23, 2008. The ECJ acknowledged the existence of a conflict between (i) EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and (ii) the national regulations deferring for 1998 the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The damages claimed are around 529 million euros, plus legal interest and revaluation.

The Avvocatura di Stato filed a challenge and submitted a counterclaim for the same sum. The case, as regards the main claim, was preliminarily reviewed by the Court, which declared the inadmissibility of Telecom Italia's main claim (damages for manifest breach of EU law pursuant to law 117/88). The Court's decision was overturned by the Court of Appeals of Rome (after appeal by the Company) which declared Telecom Italia's claim admissible. Consequently the proceedings will continue on both claims made by Telecom Italia.

The case brought by Telecom Italia to the Consiglio di Stato on January 15, 2011 for revocation of the judgement that is subject of the proceedings is pending.

### ***Mobile Telephony: Investigations***

The audit of prepaid SIM cards activated in 2005-2008 and incorrectly associated with a customer ID continued. The activities performed led to a reduction of approximately 65% of "non-compliant" SIM-cards compared to the beginning of the 2011 (as of March 31, 2012 a reduction of 49% compared to the beginning of 2012).

A new process which involves post-sales blocking of all the remaining cards was introduced in July 2011 and continued until December 2011. As a result of this process, the cards subject to post-sales blocking can no longer be used for commercial operations such as top-ups, participation in offers, contractual profile changes, etc. until they have been processed. When the identification activities commenced, approximately 5.5 million SIM-cards were not correctly associated with an ID and, at the beginning of 2011, approximately 723 thousand cards were still to be properly identified. As a result of the actions taken, by the end of 2011 only 248 thousand SIM-cards are still to be properly identified (126 thousand SIM-cards as of March 31, 2012).

At the end of March 2012, the final phase of the remediation process had begun, with the aim of completing, by June 30, 2012, the termination or the regularization of any SIM-card that at that date, will still be incorrectly associated with a customer ID.

In relation to a different matter, on March 21, 2012 Telecom Italia was served notice of the conclusion of the preliminary enquiries pursuant to art. 415 bis of the code of criminal procedure, from which it emerged that the Company is currently under investigation by the Milan Public Prosecutor pursuant to Legislative Decree 231/2001 for the alleged charge of receiving stolen goods (art. 648 of the criminal code) and fraud (art. 491 bis) of which fourteen employees of the so-called "canale etnico" of Telecom Italia are charged, jointly with several dealers (to a total of 99 individuals subject to investigation for having made fake registrations of about 109,000 SIM-cards).

In relation to this investigation, the Company, as the party damaged by such actions, filed a complaint and additional claims in 2008 and 2009 and promptly suspended the employees involved. As the party harmed by these activities Telecom Italia will be bringing a civil action.



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On April 20, 2012, the Company was notified by the Milan Public Prosecutor of the conclusion of a preliminary investigation under the Italian Code of Criminal Procedure in which three previous executives of the Company (including Mr. Luca Luciani, who as of April 20, 2012 was the CEO of Tim Participações S.A., the listed and principal holding company of the Tim Brasil business area ("**Tim Participações**"), were charged with obstruction of supervisory activity. The charges relate to (i) the alleged unlawful renewal of prepaid SIM-cards after their normal termination date from 2006 to 2008, in the amount of 223,000 lines or 0.19% of market share in 2006; 2,742,000 lines or 1.88% of market share in 2007; and 2,345,000 lines or 1.64% of market share in 2008, and (ii) around one million SIM-cards which allegedly were not refilled in the 12 months after their activation (184,000 lines in 2005; 445,000 lines in 2006; 335,000 lines in 2007; and 78,000 lines in 2008). The Company is continuing to review the documentation relating to the investigation received from the Milan Public Prosecutor.

On May 4, 2012, Mr. Luca Luciani resigned from Tim Brasil and Tim Participações and gave up all mandates he had with any companies within the Group.

Telecom Italia is under investigation for the same charges under Legislative Decree 231/2001. The review of the numerous investigation documents has recently started. As the review proceeds, Telecom Italia will be able to give its initial assessment of the facts. Management does not believe this matter will materially impact the consolidated financial statements.

### ***Teletu***

In 2012 Telecom Italia commenced proceedings in the Rome Court against the telecommunication operator Teletu. Telecom Italia is claiming damages of approximately 93 million euros arising from the alleged unlawful refusal by Teletu to have Teletu clients activate accounts with Telecom Italia.

### ***Other liabilities related to the sale of assets and shareholdings***

With respect to contracts for the sale of assets and companies the Telecom Italia Group has indemnified the purchasers, against liabilities deriving from legal, tax, pension and labor law issues, such indemnities are commensurate to a percentage of the purchase price.

Against the aforementioned contingent liabilities, amounting to approximately 1,100 million euros, for those cases in which a payout is thought probable, 111 million euros have been set aside as provision for risk.

It is also to be noted that the Telecom Italia Group has committed to granting further indemnities relative to several specific contractual provisions for which contingent liabilities cannot currently be determined, against the sale of assets and shareholdings.

### **c) Commitments and guarantees**

Guarantees for 19 million euros, net of back-to-back guarantees received, by Telecom Italia on behalf of associates (6 million euros) and other third parties for medium/long-term financial transactions.

Guarantees were provided by third parties to Group companies, amounting to 4,310 million euros, to guarantee financing received (2,262 million euros) and performance under outstanding contracts (2,048 million euros).

Among the guarantees provided by third parties for Telecom Italia S.p.A.'s obligations are two guarantees in favor of the Ministry of Economic Development for the auction to assign the user rights for the 800, 1800 and 2600MHz frequencies. The guarantees amount, respectively, to 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics) and 456 million euros (for the request to pay back the total amount owed over a period of 5 years).

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Details of the main guarantees received for EIB financing at December 31, 2011 are as follows:

<u>Issuer</u>	<u>Amount (millions of euros)(1)</u>
BBVA - Banco Bilbao Vizcaya Argentaria .....	604
Intesa SanPaolo .....	471
Sumitomo .....	109
Bank of Tokyo—Mitsubishi UFJ .....	254
Banco Santander .....	139
Barclays Bank .....	75
CARIGE .....	92
Natixis .....	84
SACE .....	105
Citibank .....	28

(1) Relative to loans issued by EIB for Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network and Telecom Italia Banda Larga Mezzogiorno Projects.

There are also surety bonds on the 3G service in Brazil for 122 million euros.

#### **d) Assets pledged to guarantee financial liabilities**

The contracts for low-rate loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular for a total equivalent amount of 800 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

The loan granted by BBVA Banco Francés to Tierra Argentea S.A. (a wholly-owned Argentine subsidiary of the Telecom Italia Group) is secured by two pledges, respectively, of 15,374,858 Telecom Argentina S.A. shares and 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares. The covenants on the loan are described in the Note "Financial liabilities (non-current and current)".

#### **NOTE 24—REVENUES**

Revenues amounted to 29,957 million euros in 2011, 27,571 million euros in 2010 and 26,894 million euros in 2009, showing an increase of 2,386 million euros in 2011 compared to 2010 and of 677 million euros in 2010 compared to 2009.

Details are as follows:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>(millions of euros)</u>		
Equipment sales .....	2,189	1,608	1,735
Services .....	27,755	25,953	25,159
Revenues on construction contracts .....	13	10	—
<b>Total</b> .....	<b><u>29,957</u></b>	<b><u>27,571</u></b>	<b><u>26,894</u></b>

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 3,664 million euros (3,740 million euros in 2010, -2.0%), included in the costs of services.

For a breakdown of revenues by operating segment/geographical area, reference should be made to the Note "Segment Reporting".

#### **NOTE 25—OTHER INCOME**

Other income amounted to 299 million euros in 2011, 255 million euros in 2010 and 280 million euros in 2009, showing an increase of 44 million euros in 2011 compared to 2010 and a decrease of 25 million euros in 2010 compared to 2009.



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Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Compensation for late payment fees of telephone services .....	71	72	71
Recovery of costs for employees, purchases and services rendered .....	36	47	46
Capital and operating grants .....	24	38	49
Damage compensation, penalties and sundry recoveries .....	36	18	30
Other income .....	132	80	84
<b>Total</b> .....	<b>299</b>	<b>255</b>	<b>280</b>

## NOTE 26—ACQUISITION OF GOODS AND SERVICES

Acquisition of goods and services amounted to 12,859 million euros in 2011, 11,383 million euros in 2010, and 11,480 million euros in 2009, showing an increase of 1,476 million euros in 2011 compared to 2010 and a decrease of 97 million euros in 2010 compared to 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Acquisition of raw materials and merchandise</b> .....	<b>(A)</b>	<b>2,525</b>	<b>1,568</b>
<b>Costs of services:</b>			
Revenues due to other TLC operators .....		3,664	3,740
Interconnection costs .....		43	45
Commissions, sales commissions and other selling expenses .....		1,594	1,457
Advertising and promotion expenses .....		665	643
Professional and consulting services .....		418	380
Utilities .....		444	374
Maintenance .....		519	382
Outsourcing costs for other services .....		655	502
Mailing and delivery expenses for telephone bills, directories and other materials to customers .....		118	96
Other service expenses .....		804	848
	<b>(B)</b>	<b>8,924</b>	<b>8,467</b>
<b>Lease and rental costs:</b>			
Property lease costs .....		647	594
TLC circuit lease rents and rents for use of satellite systems .....		525	490
Other lease and rental costs .....		238	264
	<b>(C)</b>	<b>1,410</b>	<b>1,348</b>
<b>Total</b> .....	<b>(A + B + C)</b>	<b>12,859</b>	<b>11,383</b>

## NOTE 27—EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses amounted to 3,917 million euros in 2011, 4,021 million euros in 2010 and 3,734 million euros in 2009, showing a decrease of 104 million euros in 2011 compared to 2010 and an increase of 287 million euros in 2010 compared to 2009.

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Details are as follows:

		Year ended December 31,		
		2011	2010	2009
		(millions of euros)		
<b>Payroll expenses:</b>				
Wages and salaries .....		2,788	2,615	2,570
Social security expenses .....		993	931	942
Employee severance indemnities .....		(75)	40	52
Other employee expenses .....		119	112	100
	(A)	<u>3,825</u>	<u>3,698</u>	<u>3,664</u>
<b>Costs and provisions for Temp work .....</b>	(B)	<u>5</u>	<u>9</u>	<u>21</u>
<b>Miscellaneous expenses for personnel and for other labor-related services rendered:</b>				
Remuneration of personnel other than employees .....		9	8	9
Charges for termination benefit incentives .....		64	56	40
Expenses for mobility under Law 223/91 .....		12	258	—
Other .....		2	(8)	—
	(C)	<u>87</u>	<u>314</u>	<u>49</u>
<b>Total .....</b>	<b>(A+B+C)</b>	<u><u>3,917</u></u>	<u><u>4,021</u></u>	<u><u>3,734</u></u>

The decrease in employee benefits expenses in 2011 is mainly due to:

- the increase connected with the consolidation of the Argentina Business Unit for the full year 2011 (+11,521 average headcount compared to 2010) with an effect of 364 million euros;
- lower expenses owing to the contraction of the average headcount of the salaried workforce (the above effect relating to the Argentina Business Unit is already excluded) by 3,301 compared to 2010, of which an average of 1,188 persons are under so-called "solidarity contracts" in Telecom Italia S.p.A. and SSC;
- the reduction in the cost connected with the provision for employee severance indemnities, for 113 million euros, relating to the actuarial effects of the employee severance indemnities arising from the change in the economic parameters of reference (discount rate and inflation rate) and the new law on pensions (Law 214 of December 22, 2011) which extends the period in which a person works;
- it should be recalled that in 2010 accruals were recorded for 258 million euros for mobility under Law 223/91, following agreements reached with the labor unions by the Parent, Telecom Italia S.p.A., TI Sparkle, SSC, Olivetti S.p.A. and Olivetti I-Jet. In 2011, provisions were recorded for a further 12 million euros, of which 9 million euros refers to the Parent, Telecom Italia, and 3 million euros to SSC.

In 2010 compared to 2009, the higher employee benefits expenses were mainly due to the entry in the scope of consolidation of the Sofora group (Argentina) (+3,711 average headcount for 114 million euros); expenses and accruals for a total of 258 million euros for collective dismissal agreements under Law 223/91, following agreements reached with the labor unions, partially offset by lower expenses owing to the reduction in the average headcount of the salaried workforce (-3,526 compared to 2009, net of Argentina).

The average headcount of the salaried workforce, including those with temp work contracts and excluding employees of Discontinued operations/Non-current assets held for sale, is 78,369 in 2011 (70,150 in 2010, and 69,964 in 2009). A breakdown by category is as follows:

		Year ended December 31,		
		2011	2010	2009
		(units)		
Executives .....		1,303	1,172	1,155
Middle management .....		6,418	5,316	5,037
White collars .....		70,457	63,410	63,204
Blue collars .....		104	168	252
<b>Employees on payroll .....</b>		<u><b>78,282</b></u>	<u><b>70,066</b></u>	<u><b>69,648</b></u>
<b>Personnel with temp work contracts .....</b>		<u><b>87</b></u>	<u><b>84</b></u>	<u><b>316</b></u>
<b>Total average headcount of salaried workforce .....</b>		<u><u><b>78,369</b></u></u>	<u><u><b>70,150</b></u></u>	<u><u><b>69,964</b></u></u>

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Headcount in service at December 31, 2011, including those with temp work contracts, is 84,154 (84,200 at December 31, 2010) with a net decrease of 46 units.

## NOTE 28—OTHER OPERATING EXPENSES

Other operating expenses amounted to 1,859 million euros in 2011, 1,422 million euros in 2010 and 1,345 million euros in 2009, an increase of 437 million euros in 2011 compared to 2010 and an increase of 77 million euros in 2010 compared to 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Impairments and expenses in connection with credit management .....	533	478	565
Provision charges .....	128	80	168
TLC operating fees and charges .....	675	484	318
Indirect duties and taxes .....	349	200	128
Penalties, settlement compensation and administrative fines .....	41	105	73
Association dues and fees, donations, scholarships and traineeships .....	23	24	26
Sundry expenses .....	110	51	67
<b>Total .....</b>	<b>1,859</b>	<b>1,422</b>	<b>1,345</b>
<i>of which, included in the supplementary disclosures on financial instruments .....</i>	<i>533</i>	<i>478</i>	<i>565</i>

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Other operating expenses grew 437 million euros compared to 2010 largely on account of the consolidation of the Argentina Business Unit for the full year 2011 (+248 million euros, including a negative exchange effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

- impairments and expenses in connection with credit management refer largely to the Domestic Business Unit for 397 million euros (317 million euros in 2010), the Brazil Business Unit for 100 million euros (133 million euros in 2010) and the Argentina Business Unit for 29 million euros;
- provision charges, recorded mostly for pending disputes, refer mainly to the Brazil Business Unit for 60 million euros (18 million euros in 2010), the Domestic Business Unit for 50 million euros (53 million euros in 2010) and the Argentina Business Unit for 17 million euros;
- TLC operating fees and charges are principally linked to the Brazil Business Unit for 554 million euros (412 million euros in 2010), the Argentina Business Unit for 61 million euros and the Domestic Business Unit for 58 million euros (56 million euros in 2010).

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

## NOTE 29—INTERNALLY GENERATED ASSETS

Internally generated assets amounted to 569 million euros in 2011, 547 million euros in 2010 and 515 million euros in 2009, showing an increase of 22 million euros in 2011 compared to 2010 and an increase of 32 million euros in 2010 compared to 2009.

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Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Intangible assets with a finite useful life .....	288	287	291
Tangible assets owned .....	281	260	224
<b>Total</b> .....	<b>569</b>	<b>547</b>	<b>515</b>

Internally generated assets mainly include labor costs of dedicated technical staff for software development and work in connection with the executive design, construction and testing of network installations.

### NOTE 30—DEPRECIATION AND AMORTIZATION

Depreciation and amortization amounted to 5,494 million euros in 2011, 5,542 million euros in 2010 and 5,551 million euros in 2009, showing a decrease of 48 million euros in 2011 compared to 2010 and of 9 million euros in 2010 compared to 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Amortization of intangible assets with a finite useful life:</b>			
Industrial patents and intellectual property rights .....	1,425	1,507	1,662
Concessions, licenses, trademarks and similar rights .....	325	314	272
Other intangible assets .....	412	395	317
<b>(A)</b>	<b>2,162</b>	<b>2,216</b>	<b>2,251</b>
<b>Depreciation of tangible assets owned:</b>			
Buildings (civil and industrial) .....	73	57	45
Plant and equipment .....	2,795	2,794	2,780
Manufacturing and distribution equipment .....	15	13	16
Ships .....	—	4	7
Other .....	333	343	328
<b>(B)</b>	<b>3,216</b>	<b>3,211</b>	<b>3,176</b>
<b>Depreciation of tangible assets held under finance leases:</b>			
Buildings (civil and industrial) .....	110	109	109
Plant and equipment .....	—	—	—
Aircraft .....	—	—	3
Other .....	6	6	12
<b>(C)</b>	<b>116</b>	<b>115</b>	<b>124</b>
<b>Total</b> .....	<b>(A + B + C) 5,494</b>	<b>5,542</b>	<b>5,551</b>

The increase in depreciation and amortization charges due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+390 million euros, including a negative exchange effect of 13 million euros) was more than offset by the decrease in depreciation and amortization charges of the Domestic Business Unit (-329 million euros) and the Brazil Business Unit (-108 million euros, including the effect of the change in the Brazilian real/euro exchange rate of +3 million euros).

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

Further details are provided in the Notes "Other intangible assets" and "Tangible assets owned and under finance leases".

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For a breakdown of depreciation and amortization by operating segment/geographical area, reference should be made to the Note "Segment Reporting".

#### NOTE 31—GAINS (LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

Gains (losses) on disposals of non—current assets amounted to a gain of 3 million euros in 2011, a gain of 11 million euros in 2010 and a loss of 59 million euros in 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Gains on disposals of non-current assets:</b>			
Gains on the retirement/disposal of intangible and tangible assets .....	5	22	14
Gains on the disposal of investments in subsidiaries .....	35	2	—
(A)	<u>40</u>	<u>24</u>	<u>14</u>
<b>Losses on disposals of non-current assets:</b>			
Losses on the retirement/disposal of intangible and tangible assets .....	37	13	62
Losses on the disposal of investments in subsidiaries .....	—	—	11
(B)	<u>37</u>	<u>13</u>	<u>73</u>
<b>Total .....</b>	<b>(A-B) <u>3</u></b>	<b><u>11</u></b>	<b><u>(59)</u></b>

In 2011, net gains on disposals of non-current assets amount to 3 million euros. The gain of 35 million euros, net of related incidental expenses, realized on the sale of Loquendo at the end of September 2011, is offset by net losses on the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, net gains on disposals of non-current assets were recorded for 11 million euros and included the gain, net of incidental expenses, for a total of 19 million euros in connection with the completion of the operation for the sale of Elettra by the International Wholesale—Domestic Business Unit.

In 2009, net losses on disposals of non-current assets mainly include the negative impact of a total of 39 million euros in connection with the final disposal of the software for the credit management of the fixed consumer clientele segment of the Domestic Business Unit, as well as the negative impact of a total of 11 million euros connected with the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A.

#### NOTE 32—IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

Impairment losses on non-current assets, amounted to 7,358 million euros in 2011, 63 million euros in 2010 and 12 million euros in 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Reversals of impairment losses on non-current assets:</b>			
• on intangible assets .....	9	—	—
• on tangible assets .....	1	—	—
(A)	<u>10</u>	<u>—</u>	<u>—</u>
<b>Impairment losses on non-current assets:</b>			
• on intangible assets .....	7,364	56	7
• on tangible assets .....	4	7	5
(B)	<u>7,368</u>	<u>63</u>	<u>12</u>
<b>Total .....</b>	<b>(A-B) <u>(7,358)</u></b>	<b><u>(63)</u></b>	<b><u>(12)</u></b>

In 2011, consist of impairment reversals carried out by the Lan Med group as a result of the partial increase in the asset values on which an impairment loss was recorded in 2006.

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In 2011, impairment losses on non-current assets amount to 7,368 million euros and include 7,307 million euros for the impairment of the goodwill allocated to the Core Domestic cash-generating unit in the Domestic Business Unit and 57 million euros for the impairment loss on the goodwill allocated to the Media Business Unit.

In particular, in preparing the annual financial statements, the Telecom Italia Group repeated the impairment test that had been performed in the first half of 2011 which led to the recognition, in the Half-year Financial Report at June 30, 2011, of an impairment loss of 3,182 million euros referring to the Core Domestic cash-generating unit. The macroeconomic and market conditions reflected a deceleration in the higher growth economies and fears of a recession in the mature ones which were more accentuated in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, particularly as it related to the trend of interest rates. The measurement therefore took into account such deterioration of the financial markets in general terms, with reference to the interest rates, while the worsening of expectations regarding the market prospects of the Business Unit in question were considered in specific terms.

In 2010, impairment losses on non-current assets amount to 63 million euros and include 46 million euros for the impairment of the goodwill allocated to the Media Business Unit; the writedown was based on the results of the impairment test. The remaining amount comprises other writedowns of intangible and tangible assets and the provision charges for expenses connected with the transactions for the sale of BBNed and Elettra.

In 2009, impairment losses on non-current assets include 6 million euros for the impairment loss, carried out on the basis of the impairment test's results, of the goodwill attributed, within business unit Other operations, to the consolidated company BBNed and for the remaining part impairment losses mainly taken by the Domestic Business Unit and refer to unused network materials and telephone equipment which are being replaced by new technologically advanced materials.

### NOTE 33—OTHER INCOME (EXPENSES) FROM INVESTMENTS

Other income (expenses) from investments was an income of 16 million euros in 2011, and 289 million euros while it was 2010 and an expense of 51 million euros in 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
Dividends from Other investments .....	1	2	2
Net gains on disposals of Other investments .....	18	30	4
Sofora revaluation, net of the reversal of the negative exchange rate reserve .....	—	266	—
Writedown of Italtel group .....	—	—	(39)
Loss and impairment losses on Other investments .....	(3)	(9)	(18)
<b>Total</b> .....	<b>16</b>	<b>289</b>	<b>(51)</b>
<i>of which, included in the supplementary disclosures on financial instruments</i> .....	<i>(2)</i>	<i>22</i>	<i>(43)</i>

In 2011, Other income (expenses) from investments is an income balance of 16 million euros and includes 17 million euros for the net gain, net of transactions costs, on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010 as part of the valuation using the equity method.

In 2010, Other income (expenses) from investments was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest already held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

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

## NOTE 34—FINANCE INCOME AND FINANCE EXPENSES

### *Finance income*

Finance income amounted to 2,464 million euros in 2011, 3,081 million euros in 2010 and 2,561 million euros in 2009, showing a decrease of 617 million euros in 2011 compared to 2010 and an increase of 520 million euros in 2010 compared to 2009.

Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Interest income and other finance income:</b>			
Income from financial receivables recorded in non-current assets ...	1	1	4
Income from securities other than investments, recorded in non-current assets .....	—	—	—
Income from securities other than investments, recorded in current assets .....	57	45	19
<b>Income other than the above:</b>			
– Interest income .....	217	143	132
– Foreign exchange gains .....	513	740	445
– Income from fair value hedge derivatives .....	328	502	462
– Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component) .....	626	635	617
– Income from non-hedging derivatives .....	24	44	32
– Miscellaneous finance income .....	45	53	18
<b>(A)</b>	<b>1,811</b>	<b>2,163</b>	<b>1,729</b>
<b>Positive fair value adjustments to:</b>			
Fair value hedge derivatives .....	415	841	38
Underlying financial assets and liabilities of fair value hedges .....	34	11	674
Non-hedging derivatives .....	204	66	120
<b>(B)</b>	<b>653</b>	<b>918</b>	<b>832</b>
<b>Reversals of impairment loss on financial assets other than investment .....</b>	<b>(C)</b>	<b>—</b>	<b>—</b>
<b>Total .....</b>	<b>(A+B+C)</b>	<b>2,464</b>	<b>3,081</b>
<i>of which, included in the supplementary disclosures on financial instruments .....</i>		<u>492</u>	<u>335</u>
		<u>298</u>	

### *Finance expenses*

Finance expenses amounted to 4,462 million euros in 2011, 5,155 million euros in 2010 and 4,731 million euros in 2009, showing a decrease of 693 million euros in 2011 compared to 2010 and an increase of 424 million euros in 2010 compared to 2009.

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Details are as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Interest expenses and other finance expenses:</b>			
Interest expenses and other costs relating to bonds .....	1,534	1,646	1,663
Interest expenses to banks .....	228	218	242
Interest expenses to others .....	227	244	224
	<u>1,989</u>	<u>2,108</u>	<u>2,129</u>
Commissions .....	55	67	28
Foreign exchange losses .....	560	734	387
Charges from fair value hedge derivatives .....	214	286	355
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component) .....	753	772	751
Charges from non-hedging derivatives .....	62	87	63
Miscellaneous finance expenses .....	205	188	175
	<u>(A) 3,838</u>	<u>4,242</u>	<u>3,888</u>
<b>Negative fair value adjustments to:</b>			
Fair value hedge derivatives .....	121	68	667
Underlying financial assets and liabilities of fair value hedge derivatives .....	384	758	55
Non-hedging derivatives .....	119	87	121
	<u>(B) 624</u>	<u>913</u>	<u>843</u>
<b>Impairment losses on financial assets other than investments ..</b>	<b>(C) —</b>	<b>—</b>	<b>—</b>
<b>Total .....</b>	<b>(A + B + C) 4,462</b>	<b>5,155</b>	<b>4,731</b>
<i>of which, included in the supplementary disclosures on financial instruments .....</i>	<u>2,126</u>	<u>2,238</u>	<u>2,263</u>



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For greater clarity of presentation the net effect relating to derivative financial instruments are summarized in the following table:

		Year ended December 31,		
		2011	2010	2009
		(millions of euros)		
<b>NET EXCHANGE GAINS AND LOSSES</b>				
Exchange gains .....		513	740	445
Exchange losses .....		(560)	(734)	(387)
		<u>(47)</u>	<u>6</u>	<u>58</u>
<b>NET RESULT FROM DERIVATIVES</b>				
Income from fair value hedge derivatives .....		328	502	462
Charges from fair value hedge derivatives .....		(214)	(286)	(355)
<b>Net result from fair value hedge derivatives .....</b>	<b>(A)</b>	<u><b>114</b></u>	<u><b>216</b></u>	<u><b>107</b></u>
Positive effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component .....		626	635	617
Negative effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component .....		(753)	(772)	(751)
<b>Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component .....</b>	<b>(B)</b>	<u><b>(127)</b></u>	<u><b>(137)</b></u>	<u><b>(134)</b></u>
Income from non-hedging derivatives .....		24	44	32
Charges from non-hedging derivatives .....		(62)	(87)	(63)
<b>Net result from non-hedging derivatives .....</b>	<b>(C)</b>	<u><b>(38)</b></u>	<u><b>(43)</b></u>	<u><b>(31)</b></u>
<b>Net result from derivatives .....</b>	<b>(A+B+C)</b>	<u><b>(51)</b></u>	<u><b>36</b></u>	<u><b>(58)</b></u>
<b>NET FAIR VALUE ADJUSTMENT TO FAIR VALUE HEDGE DERIVATIVES AND UNDERLYING</b>				
Positive fair value adjustments to fair value hedge derivatives .....		415	841	38
Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives .....		(384)	(758)	(55)
<b>Net fair value adjustments .....</b>	<b>(D)</b>	<u><b>31</b></u>	<u><b>83</b></u>	<u><b>(17)</b></u>
Positive fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives .....		34	11	674
Negative fair value adjustments to fair value hedge derivatives .....		(121)	(68)	(667)
<b>Net fair value adjustments .....</b>	<b>(E)</b>	<u><b>(87)</b></u>	<u><b>(57)</b></u>	<u><b>7</b></u>
<b>Net fair value adjustment to fair value hedge derivatives and underlying .....</b>	<b>(D + E)</b>	<u><b>(56)</b></u>	<u><b>26</b></u>	<u><b>(10)</b></u>
<b>NET FAIR VALUE ADJUSTMENTS TO NON-HEDGING DERIVATIVES</b>				
Positive fair value adjustments to non-hedging derivatives ...	<b>(F)</b>	204	66	120
Negative fair value adjustments to non-hedging derivatives .....	<b>(G)</b>	<u><b>(119)</b></u>	<u><b>(87)</b></u>	<u><b>(121)</b></u>
<b>Net fair value adjustments to non-hedging derivatives .....</b>	<b>(F+G)</b>	<u><b>85</b></u>	<u><b>(21)</b></u>	<u><b>(1)</b></u>

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## NOTE 35—PROFIT (LOSS) FOR THE YEAR

The profits (loss) for the years ended December 31, 2011, 2010 and 2009 are summarized as follows:

	Year ended December 31,		
	2011	2010	2009
	(millions of euros)		
<b>Profit (loss) for the year</b> .....	<b>(4,280)</b>	<b>3,575</b>	<b>1,596</b>
Attributable to:			
<b>Owners of the Parent</b>			
Profit (loss) from continuing operations .....	(4,713)	3,128	2,203
Profit (loss) from Discontinued operations/Non-current assets held for sale .....	(13)	(7)	(622)
<b>Profit (loss) for the year attributable to Owners of the Parent</b> .....	<b>(4,726)</b>	<b>3,121</b>	<b>1,581</b>
<b>Non-controlling interests</b>			
Profit (loss) from continuing operations .....	446	454	15
Profit (loss) from Discontinued operations/Non-current assets held for sale .....	—	—	—
<b>Profit (loss) for the year attributable to the Non-controlling interests</b> .....	<b>446</b>	<b>454</b>	<b>15</b>

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## NOTE 36—EARNINGS PER SHARE

For purposes of the calculation of diluted earnings per share, account was only taken of the potential ordinary shares relating to the equity compensation plans of the employees for which the market and non-market performance conditions were satisfied. In 2010 and 2009, the additional dividends to which the savings shareholders are entitled (at an unvarying amount of 0.011 euros per share) conventionally were allocated entirely to the profit from continuing operations.

		Year ended December 31,		
		2011	2010	2009
<b>Basic and Diluted Earnings Per Share</b>				
Profit (loss) for the year attributable to owners of the Parent .....		(4,726)	3,121	1,581
Less: additional dividend to Savings Shares (€0.011 per share) .....		—	(66)	(66)
	(millions of euros)	<u>(4,726)</u>	<u>3,055</u>	<u>1,515</u>
Average number of Ordinary and Savings Shares .....	(millions)	<u>19,290</u>	<u>19,266</u>	<u>19,247</u>
Basic and diluted earnings per share—Ordinary Shares .....		(0.24)	0.16	0.08
Plus: additional dividends per Savings Share (€0.011 per share) .....		—	0.01	0.01
Basic and diluted earnings per share—Savings Shares .....	(Euro)	<u>(0.24)</u>	<u>0.17</u>	<u>0.09</u>
<b>Basic and Diluted Earnings Per Share From Continuing Operations</b>				
Profit (loss) from continuing operations .....		(4,713)	3,128	2,203
Less: additional dividends for the Savings Shares (€0.011 per share) ..		—	(66)	(66)
	(millions of euros)	<u>(4,713)</u>	<u>3,062</u>	<u>2,137</u>
Average number of Ordinary and Savings Shares .....	(millions)	<u>19,290</u>	<u>19,266</u>	<u>19,247</u>
Basic and diluted earnings per share from continuing operations—Ordinary Shares ...		(0.24)	0.16	0.11
Plus: additional dividends per Savings Share (€0.011 per share) .....		—	0.01	0.01
Basic and diluted earnings per share from continuing operations—Savings Shares ...	(Euro)	<u>(0.24)</u>	<u>0.17</u>	<u>0.12</u>

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		Year ended December 31,		
		2011	2010	2009
<b>Basic and Diluted Earnings Per Share From Discontinued operations/Non-current assets held for sale</b>				
Profit (loss) from Discontinued operations/Non-current assets held for sale .....	(millions of euros)	(13)	(7)	(622)
Average number of Ordinary and Savings Shares .....	(millions)	19,290	19,266	19,247
Basic and diluted earnings (loss) per share from Discontinued operations/Non-current assets held for sale—Ordinary Shares .....	(Euro)	—	—	(0.03)
Basic and diluted earnings (loss) per share from Discontinued operations/Non-current assets held for sale—Savings Shares .....	(Euro)	—	—	(0.03)

		Year ended December 31,		
		2011	2010	2009
Average number of Ordinary Shares(*) .....		13,264,375,078	13,239,883,276	13,220,792,908
Average number of Savings Shares ....		6,026,120,661	6,026,120,661	6,026,120,661
<b>Total</b> .....		<b>19,290,495,739</b>	<b>19,266,003,937</b>	<b>19,246,913,569</b>

(\*) The number only takes into account the potential ordinary shares relating to the equity compensation plans of the employees for whom the market and non-market performance conditions were satisfied.

### **Future potential changes in share capital**

The following table shows the future potential changes in share capital on the basis of the options and rights granted under equity compensation plans still outstanding at December 31, 2011:

	Number of maximum shares issuable	Par value / (thousands of euros)	Paid-in capital (thousands of euros)	Subscription price per shares (euro)
<b>Additional capital increases not yet approved (ordinary shares)</b>				
Resolution by the shareholders' meeting held on April 8, 2009 .....	1,600,000,000	880,000	n.a.	n.a.
"Long Term incentive Plan 2010-2015" (capital increase in cash)(*) .....	n.a.	4,118	n.a.	n.a.
"Long Term incentive Plan 2010-2015" (bonus capital increase)(**) .....	n.a.	4,118	—	—
"Long Term incentive Plan 2011" (capital increase in cash for Selected Management)(°) .....	n.a.	4,747	n.a.	n.a.
"Long Term incentive Plan 2011" (bonus capital increase for Selected Management)(°°) .....	n.a.	4,747	—	—
"Long Term incentive Plan 2011" (bonus capital increase for Top Management)(°°°) .....	n.a.	3,256	—	—
<b>Total additional capital increases not yet approved (ordinary shares)</b> .....		<b>900,986</b>		

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- (\*) A number of ordinary shares may be issued subscribable for a total maximum equivalent amount (including paid-in capital) equal to 4,118,175 euros, with the subscription price to be determined by the board of directors.
- (\*\*) A number of ordinary shares may be issued for the number needed to grant a bonus share for every share subscribed, up to a maximum amount equal to 4,118,175 euros.
- (°) A number of ordinary shares may be issued subscribable for a total maximum equivalent amount (including paid-in capital) equal to 4,747,125 euros, with the subscription price to be determined by the board of directors.
- (°°) A number of ordinary shares may be issued for the number needed to grant a bonus share for every share subscribed, up to a maximum amount equal to 4,747,125 euros.
- (°°°) A number of ordinary shares may be issued as a bonus grant for a maximum amount equal to 3,256,200 euros, with the subscription price to be determined by the board of directors.

With regard to additional capital increases not yet approved, the following changes during 2011 are noted.

The shareholders' meeting held on April 12, 2011 granted the directors the right for five years from April 12, 2011 to increase share capital to service the "Long Term Incentive Plan 2011", approved by the same shareholders' meeting, as follows:

- in cash through the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, for a maximum amount of 5,000,000 euros, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, reserved for a part of the employees (defined as "Selected Management"), beneficiaries of the "Long Term Incentive Plan 2011", who in due time will be identified by the board of directors of the Company, and, therefore, subsequently (ii) for a maximum amount of 5,000,000 euros through the appropriation of a corresponding maximum amount of profits or reserves in accordance with art. 2349 of the Italian Civil Code, with the issue of ordinary shares in the number needed to grant a bonus share for every share subscribed in cash as above, within the dates, according to the conditions and in keeping with the manner provided by the "Long Term Incentive Plan 2011";
- for a maximum amount of 5,500,000 euros through the appropriation of a corresponding maximum amount of profits or profit reserves pursuant to art. 2349 of the Italian Civil Code, with the issue of ordinary shares reserved for a part of the employees (defined as "Top Management"), beneficiaries of the "Long Term Incentive Plan 2011", who in due time will be identified by the board of directors of the Company, within the dates, according to the conditions and in keeping with the manner provided by the "Long Term Incentive Plan 2011".

As regards the share capital increase in cash, the board of directors shall fix the share issue price (including paid-in capital) in conformity with the provisions of the "Long Term Incentive Plan 2011" and shall also fix the period for its subscription, establishing that, if the approved capital increase is not fully subscribed to within that period, the share capital shall be increased for an amount equal to the subscriptions received up to the end of that period.

On July 7, 2011, the board of directors, by the power granted to it by the special shareholders' meeting held on April 12, 2011, approved the start of the "Long Term Incentive Plan 2011" and conferred mandates for its implementation, defining the regulation and contractual documentation, identifying the Plan beneficiaries and establishing the total maximum amount of the capital increases for the Selected Management (4,894,650 euros for the capital increase in cash and 4,894,650 euros for the bonus capital increase) and for Top Management (3,256,200 euros for the bonus capital increase).

In reference to the "Broad-based Employee Share Ownership Plan 2010-2014", on July 7, 2011, the board of directors, by the power granted to it by the special shareholders' meeting held on April 29, 2010, passed a resolution for a bonus increase in share capital, pursuant to articles 2443 and 2349 of the Italian Civil Code, for a maximum par value of 4,903,493.10 euros with the issue of a maximum 8,915,442 ordinary shares of par value 0.55 euros each, with normal dividend rights, to be granted under the "Broad-based Employee Share Ownership Plan 2010-2014" by the latest date of September 15, 2011.

On August 2, 2011, the capital increase was set in motion with the grant of 8,876,296 bonus ordinary shares to those entitled, for a total par value of 4,881,962.80 euros.

Further details are provided in the Note "Equity compensation plans".

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## **NOTE 37—SEGMENT REPORTING**

### **a) Reporting by operating segment**

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Argentina
- Media
- Olivetti
- Other Operations

## CONSOLIDATED INCOME STATEMENTS BY OPERATING SEGMENT

	Domestic			Brazil			Argentina			Media			Olivetti			Other Operations			Adjustments and eliminations			Consolidated Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(millions of euros)																							
Third—party revenues	18,945	20,004	21,604	7,319	6,180	4,743	3,214	796	—	220	236	200	259	293	260	—	62	87	—	—	—	29,957	27,571	26,894
Intragroup revenues	87	64	59	24	19	10	6	2	—	18	22	30	84	98	90	2	2	3	(221)	(207)	(192)	—	—	—
<b>Revenues by operating segment</b>	<b>19,032</b>	<b>20,068</b>	<b>21,663</b>	<b>7,343</b>	<b>6,199</b>	<b>4,753</b>	<b>3,220</b>	<b>798</b>	<b>—</b>	<b>238</b>	<b>258</b>	<b>230</b>	<b>343</b>	<b>391</b>	<b>350</b>	<b>2</b>	<b>64</b>	<b>90</b>	<b>(221)</b>	<b>(207)</b>	<b>(192)</b>	<b>29,957</b>	<b>27,571</b>	<b>26,894</b>
Other income	248	211	245	25	18	14	6	2	—	26	5	3	18	25	21	2	3	3	(26)	(9)	(6)	299	255	280
<b>Total operating revenues and other income</b>	<b>19,280</b>	<b>20,279</b>	<b>21,908</b>	<b>7,368</b>	<b>6,217</b>	<b>4,767</b>	<b>3,226</b>	<b>800</b>	<b>—</b>	<b>264</b>	<b>263</b>	<b>233</b>	<b>361</b>	<b>416</b>	<b>371</b>	<b>4</b>	<b>67</b>	<b>93</b>	<b>(247)</b>	<b>(216)</b>	<b>(198)</b>	<b>30,256</b>	<b>27,826</b>	<b>27,174</b>
Acquisition of goods and services	(6,766)	(7,130)	(8,340)	(4,399)	(3,520)	(2,808)	(1,398)	(347)	—	(167)	(171)	(164)	(329)	(368)	(296)	(7)	(49)	(57)	207	202	185	(12,859)	(11,383)	(11,480)
Employee benefits expenses	(2,987)	(3,473)	(3,369)	(321)	(283)	(207)	(478)	(114)	—	(61)	(61)	(67)	(67)	(72)	(66)	(4)	(21)	(28)	1	3	3	(3,917)	(4,021)	(3,734)
<i>of which accruals to employee severance indemnities</i>	73	(40)	(49)	—	—	—	—	—	—	1	—	(1)	1	—	(2)	—	—	—	—	—	—	75	(40)	(52)
Other operating expenses	(778)	(709)	(849)	(747)	(588)	(467)	(332)	(83)	—	(8)	(17)	(10)	(10)	(7)	(9)	(8)	(17)	(10)	24	(1)	—	(1,859)	(1,422)	(1,345)
<i>of which : writedowns and expenses in connection with credit management and provision charges</i>	(447)	(370)	(540)	(160)	(151)	(178)	(46)	(9)	—	(4)	(13)	(6)	(8)	(6)	(8)	—	(9)	(1)	4	—	—	(661)	(558)	(733)
Changes in inventories	10	(57)	52	19	(76)	(52)	17	(11)	—	—	(1)	(1)	10	12	(14)	—	(1)	(1)	—	(1)	1	56	(135)	(15)
Internally generated assets	484	483	481	70	51	22	—	—	—	—	—	—	—	—	—	—	—	—	15	13	12	569	547	515
Depreciation and amortization	(3,907)	(4,236)	(4,443)	(1,003)	(1,112)	(1,040)	(525)	(135)	—	(58)	(59)	(60)	(6)	(5)	(5)	—	(10)	(20)	5	15	17	(5,494)	(5,542)	(5,551)
Gains (losses) on disposals of non-current assets	19	14	(42)	(1)	(4)	(6)	(1)	—	—	—	—	(11)	—	—	—	1	1	—	(15)	—	—	3	11	(59)
Impairment reversals (losses) on non-current assets	(7,300)	(9)	(5)	—	—	—	—	—	—	(57)	(46)	—	—	—	—	(1)	(8)	(7)	—	—	—	(7,358)	(63)	(12)
<b>Operating profit</b>	<b>(1,945)</b>	<b>5,162</b>	<b>5,393</b>	<b>986</b>	<b>685</b>	<b>209</b>	<b>509</b>	<b>110</b>	<b>—</b>	<b>(87)</b>	<b>(92)</b>	<b>(80)</b>	<b>(41)</b>	<b>(24)</b>	<b>(19)</b>	<b>(15)</b>	<b>(38)</b>	<b>(30)</b>	<b>(10)</b>	<b>15</b>	<b>20</b>	<b>(603)</b>	<b>5,818</b>	<b>5,493</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(2)	(18)	(20)	—	—	—	—	—	—	—	—	—	—	—	—	(37)	117	87	—	—	—	(39)	99	67
Other income (expenses) from investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	16	289	(51)
Finance income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,464	3,081	2,561
Finance expenses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,462)	(5,155)	(4,731)
<b>Profit (loss) before tax from continuing operations</b>																						<b>(2,624)</b>	<b>4,132</b>	<b>3,339</b>
Income tax expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,643)	(550)	(1,121)
<b>Profit (loss) from continuing operations</b>																						<b>(4,267)</b>	<b>3,582</b>	<b>2,218</b>
Profit (loss) from Discontinued operations /Non-current assets held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(13)	(7)	(622)
<b>Profit (loss) for the year</b>																						<b>(4,280)</b>	<b>3,575</b>	<b>1,596</b>
Attributable to:																								
owners of the Parent	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(4,726)	3,121	1,581
Non-controlling Interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	446	454	15



## REVENUES BY OPERATING SEGMENT

	Domestic			Brazil			Argentina			Media			Olivetti			Other Operations			Adjustments and eliminations			Consolidated Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(millions of euros)																							
Revenues from equipment sales—third party .....	909	871	1,140	745	380	335	276	64	—	—	—	—	258	293	260	—	—	—	—	—	—	2,188	1,608	1,735
Revenues from equipment sales—intragroup .....	1	1	3	—	—	—	—	—	—	—	—	—	51	60	52	—	—	—	(52)	(61)	(55)	—	—	—
<b>Total revenues from equipment sales .....</b>	<b>910</b>	<b>872</b>	<b>1,143</b>	<b>745</b>	<b>380</b>	<b>335</b>	<b>276</b>	<b>64</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>309</b>	<b>353</b>	<b>312</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(52)</b>	<b>(61)</b>	<b>(55)</b>	<b>2,188</b>	<b>1,608</b>	<b>1,735</b>
Revenues from services—third party .....	18,022	19,123	20,464	6,574	5,800	4,408	2,938	732	—	220	236	200	1	—	—	—	62	87	—	—	—	27,755	25,953	25,159
Revenues from services—intragroup .....	86	63	56	24	19	10	6	2	—	18	22	30	33	38	38	2	2	3	(169)	(146)	(137)	—	—	—
<b>Total revenues from services .....</b>	<b>18,108</b>	<b>19,186</b>	<b>20,520</b>	<b>6,598</b>	<b>5,819</b>	<b>4,418</b>	<b>2,944</b>	<b>734</b>	<b>—</b>	<b>238</b>	<b>258</b>	<b>230</b>	<b>34</b>	<b>38</b>	<b>38</b>	<b>2</b>	<b>64</b>	<b>90</b>	<b>(169)</b>	<b>(146)</b>	<b>(137)</b>	<b>27,755</b>	<b>25,953</b>	<b>25,159</b>
Revenues on construction contracts—third party .....	14	10	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14	10	—
<b>Total revenues on construction contracts .....</b>	<b>14</b>	<b>10</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14</b>	<b>10</b>	<b>—</b>
Total third-party revenues .....	18,945	20,004	21,604	7,319	6,180	4,743	3,214	796	—	220	236	200	259	293	260	—	62	87	—	—	—	29,957	27,571	26,894
Total intragroup revenues .....	87	64	59	24	19	10	6	2	—	18	22	30	84	98	90	2	2	3	(221)	(207)	(192)	—	—	—
<b>Total revenues by operating segment .....</b>	<b>19,032</b>	<b>20,068</b>	<b>21,663</b>	<b>7,343</b>	<b>6,199</b>	<b>4,753</b>	<b>3,220</b>	<b>798</b>	<b>—</b>	<b>238</b>	<b>258</b>	<b>230</b>	<b>343</b>	<b>391</b>	<b>350</b>	<b>2</b>	<b>64</b>	<b>90</b>	<b>(221)</b>	<b>(207)</b>	<b>(192)</b>	<b>29,957</b>	<b>27,571</b>	<b>26,894</b>

## CAPITAL EXPENDITURES BY OPERATING SEGMENT

	Domestic			Brazil			Argentina			Media			Olivetti			Other Operations			Adjustments and eliminations			Consolidated Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(millions of euros)																							
Purchase of intangible assets .....	2,378	1,258	1,565	521	458	421	152	32	—	30	34	27	2	1	1	—	1	3	(17)	(3)	—	3,066	1,781	2,017
Purchase of tangible assets .....	1,822	1,848	1,950	769	758	543	404	156	—	31	33	26	3	4	3	—	3	4	—	—	—	3,029	2,802	2,526
<b>Total capital expenditures .....</b>	<b>4,200</b>	<b>3,106</b>	<b>3,515</b>	<b>1,290</b>	<b>1,216</b>	<b>964</b>	<b>556</b>	<b>188</b>	<b>—</b>	<b>61</b>	<b>67</b>	<b>53</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>—</b>	<b>4</b>	<b>7</b>	<b>(17)</b>	<b>(3)</b>	<b>—</b>	<b>6,095</b>	<b>4,583</b>	<b>4,543</b>

## HEADCOUNT BY OPERATING SEGMENT

	Domestic		Brazil		Argentina		Media		Olivetti		Other Operations		Consolidated Total	
	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010
	(number of employees)													
Headcount .....	55,389	56,530	10,539	10,114	16,350	15,650	765	777	1,075	1,090	36	39	84,154	84,200

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## ASSETS AND LIABILITIES BY OPERATING SEGMENT

	Domestic		Brazil		Argentina		Media		Olivetti		Other Operations		Adjustments and eliminations		Consolidated Total	
	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010	As of December 31, 2011	As of December 31, 2010
	(millions of euros)															
Non-current operating assets .....	51,567	58,532	6,850	6,296	3,791	3,926	405	459	29	14	71	40	(80)	(59)	62,633	69,208
Current operating assets .....	5,493	5,572	1,924	1,714	524	615	100	121	231	238	62	10	(117)	(120)	8,217	8,150
<b>Total operating assets .....</b>	<b>57,060</b>	<b>64,104</b>	<b>8,774</b>	<b>8,010</b>	<b>4,315</b>	<b>4,541</b>	<b>505</b>	<b>580</b>	<b>260</b>	<b>252</b>	<b>133</b>	<b>50</b>	<b>(197)</b>	<b>(179)</b>	<b>70,850</b>	<b>77,358</b>
Investments accounted for using the equity method .....	26	28	—	—	—	—	—	—	—	—	21	57	—	—	47	85
Discontinued operations/ Non-current assets held for sale .....															—	389
Unallocated assets ...															12,962	11,208
<b>Total assets .....</b>															<b>83,859</b>	<b>89,040</b>
<b>Total operating liabilities .....</b>	<b>9,919</b>	<b>10,347</b>	<b>2,475</b>	<b>2,263</b>	<b>1,123</b>	<b>1,075</b>	<b>175</b>	<b>185</b>	<b>192</b>	<b>205</b>	<b>40</b>	<b>32</b>	<b>(192)</b>	<b>(186)</b>	<b>13,732</b>	<b>13,921</b>
Liabilities directly associated with Discontinued operations/ Non-current assets held for sale .....															—	—
Unallocated liabilities .....															43,432	42,564
Equity .....															26,695	32,555
<b>Total equity and liabilities .....</b>															<b>83,859</b>	<b>89,040</b>

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## b) Reporting by geographical area

		Revenues						Non-current operating assets	
		Breakdown by location of operations			Breakdown by location of the Group's customers			Breakdown by the location of operations	
		2011	2010	2009	2011	2010	2009	2011	2010
		(millions of euros)							
Italy .....	(A)	19,130	20,210	21,767	17,809	18,689	20,250	55,743	58,596
Abroad (excluding Italy) .....	(B)	10,827	7,361	5,127	12,148	8,882	6,644	11,073	10,612
Total .....	(A + B)	29,957	27,571	26,894	29,957	27,571	26,894	66,816	69,208

## c) Information about major customers

None of the Telecom Italia Group's customers exceeds 10% of consolidated revenues.

## NOTE 38—Related Party Transactions

The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the consolidated separate income statements, consolidated statements of financial position and consolidated statements of cash flows.

Transactions with related parties, when not dictated by specific laws, are usually conducted at arm's length.

Furthermore, the transactions are subject to an internal procedure (adopted by resolution of the Board of Directors on November 4, 2010), which defines procedures and timing for verification and monitoring.

The figures in the separate consolidated income statements and consolidated statements of cash flows for the years 2011 are compared to those for the years 2010 and 2009, while the figures in the consolidated statements of financial position at December 31, 2011 are compared to those at December 31, 2010.

The effects on the individual line items of the separate consolidated income statements for the years 2011, 2010 and 2009 are as follows:

## Separate consolidated income statement line items 2011

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	(millions of euros)									
Revenues .....	29,957	91	2	1,007	—	—	1,100	—	1,100	3.7
Other income .....	299	—	1	1	—	—	2	—	2	0.7
Acquisition of goods and services .....	12,859	16	42	671	—	—	729	—	729	5.7
Employee benefits expenses .....	3,917	—	—	4	91	18	113	—	113	2.9
Gains (losses) on disposals of non-current assets .....	3	—	—	—	—	—	—	—	—	—
Finance income .....	2,464	—	—	127	—	—	127	—	127	5.2
Finance expenses .....	4,462	31	—	62	—	—	93	—	93	2.1

(\*) Other related parties through Directors, Statutory Auditors and key managers.

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### Separate consolidated income statement line items 2010

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	(millions of euros)									
Revenues .....	27,571	130	22	876	—	—	1,028	—	1,028	3.7
Other income .....	255	2	—	4	—	—	6	—	6	2.4
Acquisition of goods and services .....	11,383	85	25	522	—	—	632	—	632	5.6
Employee benefits expenses .....	4,021	—	—	4	93	15	112	—	112	2.8
Gains (losses) on disposals of non-current assets .....	11	—	—	(1)	—	—	(1)	—	(1)	—
Finance income .....	3,081	—	—	153	—	—	153	—	153	5.0
Finance expenses ...	5,155	37	—	48	—	—	85	—	85	1.6

(\*) Other related parties through Directors, Statutory Auditors and key managers.

### Separate consolidated income statement line items 2009

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	(millions of euros)									
Revenues .....	26,894	204	26	784	—	—	1,014	(36)	978	3.6
Other income .....	280	3	—	3	—	—	6	—	6	2.1
Acquisition of goods and services .....	11,480	91	6	560	—	—	657	(126)	531	4.6
Employee benefits expenses .....	3,734	—	—	4	92	15	111	—	111	3.0
Finance income .....	2,561	—	—	64	—	—	64	—	64	2.5
Finance expenses .....	4,731	31	—	248	—	—	279	—	279	5.9
Profit (loss) from Discontinued operations/Non-current assets held for sale .....	—	—	—	(90)	—	—	(90)			

(\*) Other related parties through Directors, Statutory Auditors and key managers.

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The effects on the individual line items of the consolidated statements of financial position at December 31, 2011 and at December 31, 2010 are as follows:

### Consolidated statement of financial position line items at December 31, 2011

	Related parties								Total related parties net of Disc.Op	% on line item
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations		
	(millions of euros)									
Non-current financial assets .....	2,949	—	—	269	—	—	269	—	269	9.1
Securities other than investments (current assets) .....	1,007	—	—	8	—	—	8	—	8	0.8
Financial receivables and other current financial assets .....	462	—	—	28	—	—	28	—	28	6.1
Cash and cash equivalents .....	6,714	—	—	278	—	—	278	—	278	4.1
Current financial assets ....	8,183	—	—	314	—	—	314	—	314	3.8
Non-current financial liabilities .....	35,860	151	—	332	—	—	483	—	483	1.3
Current financial liabilities .....	6,091	134	—	58	—	—	192	—	192	3.2
Miscellaneous receivables and other non-current assets .....	1,128	—	—	—	—	—	—	—	—	—
Trade and miscellaneous receivables and other current assets .....	7,770	36	1	220	—	—	257	—	257	3.3
Miscellaneous payables and other non-current liabilities .....	1,156	—	—	3	—	—	3	—	3	0.3
Trade and miscellaneous payables and other current liabilities .....	<u>10,984</u>	<u>10</u>	<u>45</u>	<u>167</u>	<u>30</u>	<u>—</u>	<u>252</u>	<u>—</u>	<u>252</u>	<u>2.3</u>

(\*) Other related parties through Directors, Statutory Auditors and key managers.

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## Consolidated statement of financial position line items at December 31, 2010

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	(millions of euros)									
Non-current financial assets .....	1,863	—	—	109	—	—	109	—	109	5.9
Securities other than investments (current assets) .....	1,316	—	—	14	—	—	14	—	14	1.1
Financial receivables and other current financial assets .....	438	—	—	23	—	—	23	—	23	5.3
Cash and cash equivalents .....	5,526	—	—	113	—	—	113	—	113	2.0
Current financial assets ..	7,280	—	—	150	—	—	150	—	150	2.1
Non-current financial liabilities .....	34,348	193	—	238	—	—	431	—	431	1.3
Current financial liabilities .....	6,882	118	—	128	—	—	246	—	246	3.6
Miscellaneous receivables and other non-current assets .....	934	15	—	—	—	—	15	—	15	1.6
Trade and miscellaneous receivables and other current assets .....	7,790	65	1	204	—	—	270	—	270	3.5
Miscellaneous payables and other non-current liabilities .....	1,086	—	—	4	—	—	4	—	4	0.4
Trade and miscellaneous payables and other current liabilities .....	10,954	18	39	236	32	—	325	—	325	3.0

(\*) Other related parties through Directors, Statutory Auditors and key managers.

The effects on the individual line items of the consolidated statements of cash flows for the years 2011, 2010 and 2009 are as follows:

## Consolidated statement of cash flows line items 2011

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	(millions of euros)									
Purchase of intangible and tangible assets on an accrual basis .....	6,095	3	162	1	—	—	166	—	166	2.7
Dividends paid .....	1,326	—	—	191	1	—	192	—	192	14.5

(\*) Other related parties through Directors, Statutory Auditors and key managers.



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## Consolidated statement of cash flows line items 2010

	Related parties									
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations		Total related parties net of Disc.Op
	(millions of euros)									
Purchase of intangible and tangible assets on an accrual basis .....	4,583	2	59	1	—	—	62	—	62	1.4
Dividends paid .....	1,093	—	—	163	1	—	164	—	164	15.0

(\*) Other related parties through Directors, Statutory Auditors and key managers.

## Consolidated statement of cash flows line items 2009

	Related parties									
		Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
	Total									
(millions of euros)										
Purchase of intangible and tangible assets on an accrual basis .....	4,543	3	—	19	—	—	22	(19)	3	0.1
Dividends paid .....	1,050	—	—	176	1	—	177	—	177	16.9
Cash flows from (used in) Discontinued operations/non-current assets held for sale .....	61	—	—	19	—	—	19	—	—	—

(\*) Other related parties through Directors, Statutory Auditors and key managers.

**TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES**

On January 31, 2011, Telecom Italia International N.V. finalized the sale of the entire 27% investment held in the Cuban operator EtecSA.

The most significant amounts are summarized as follows:

Separate consolidated income statement line items	2011	2010	2009	Type of contract
	(millions of euros)			
<b>Revenues</b>				
● EtecSA .....	—	5	5	International telecommunications services, roaming and technical assistance
● LI.SIT. S.p.A. ....	—	3	25	Lombardy Region social health system information networking and telephone services
● NordCom S.p.A. ....	2	3	2	Telephone services and data network connections, applications software and call center services
● Telbios S.p.A. ....	—	2	2	Supply of telephone services, ADSL lines, sale of equipment and property leases
● Teleleasing S.p.A. ....	87	115	167	Sale of equipment
● TM News S.p.A. ....	1	1	1	Fixed and mobile telephone services, property leases and administrative outsourcing
● Other minor companies .....	1	1	2	
<b>Total revenues</b> .....	<b>91</b>	<b>130</b>	<b>204</b>	
<b>Other income</b> .....	<b>—</b>	<b>2</b>	<b>3</b>	Recovery of costs of personnel on secondment and recovery of costs for services rendered
<b>Acquisition of goods and services</b>				
● EtecSA .....	5	63	70	International telecommunications services and roaming
● Movenda S.p.A. ....	1	—	—	Supply of SIM cards and related adapters, software analysis and development
● NordCom S.p.A. ....	2	2	2	Purchase and development of computer solutions, supply of rented equipment and computer services, professional assistance services and applications maintenance services, supply and operation of customized offerings
● Telbios S.p.A. ....	—	4	6	Supply of audio/visual products and hardware systems and software for remote medicine offerings and call center services
● Teleleasing S.p.A. ....	4	7	8	Purchase of goods sold under leasing arrangements with Telecom Italia customers
● Tiglio I S.r.l. ....	—	4	3	Property leases
● TM News S.p.A. ....	4	4	2	Supply of information contents for the TimSpot services, services and photos for intranet, supply of journalistic information (news, APCOM News data flow)
● Other minor companies .....	—	1	—	
<b>Total acquisition of goods and services</b> ..	<b>16</b>	<b>85</b>	<b>91</b>	
<b>Finance expenses</b>				
● Teleleasing S.p.A. ....	23	27	30	Interest expenses on finance leases of equipment and finance leases
● Other minor companies .....	8	10	1	
<b>Total finance expenses</b> .....	<b>31</b>	<b>37</b>	<b>31</b>	

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Consolidated statement of financial position line items	As of December 31, 2011	As of December 31, 2010	Type of contract
	(millions of euros)		
<b>Non current financial liabilities</b>			
● Teleleasing S.p.A. ....	151	192	Finance lease of equipment and finance leases
● Tiglio I S.r.l. ....	—	1	Sale and leaseback transactions
<b>Total non current financial liabilities ...</b>	<b>151</b>	<b>193</b>	
<b>Current financial liabilities</b> .....	<b>134</b>	<b>118</b>	Finance leases of equipment and finance leases with Teleleasing S.p.A.
	==	==	
<b>Miscellaneous receivables and other non current assets</b> .....	<b>—</b>	<b>15</b>	Miscellaneous receivables net of provision for bad debts
	==	==	
<b>Trade and miscellaneous receivables and other current assets</b>			
● EtecSA .....	—	29	International telecommunications services, roaming and dividends collectible
● Nord.Com S.p.A. ....	1	1	Supply of data network connections and applications software
● Teleleasing S.p.A. ....	33	33	Sale of equipment
● TM News S.p.A. ....	1	1	Property leases and telecommunications services
● Other minor companies .....	1	1	
<b>Total trade and miscellaneous receivables and other current assets</b> .....	<b>36</b>	<b>65</b>	
	==	==	
<b>Trade and miscellaneous payables and other current liabilities</b>			
● EtecSA .....	—	2	Telecommunications services and roaming
● Movenda S.p.A. ....	2	1	Supply of SIM card and related adapters, software analysis and development
● Nord.Com S.p.A. ....	1	1	Purchase and development of computer solutions, supply of rented equipment and computer services, professional assistance services and applications maintenance services, supply and operation of customized offerings
● Teleleasing S.p.A. ....	5	11	Purchase of goods sold under leasing arrangements with Telecom Italia customers
● Tiglio I S.r.l. ....	—	2	Property leases
● TM News S.p.A. ....	1	1	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information (news, APCOM News data flow)
● Other minor companies .....	1	—	
<b>Total trade and miscellaneous payables and other current liabilities</b> .....	<b>10</b>	<b>18</b>	
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Consolidated statement of cash flows line items	2011	2010	2009	Type of contract
	(millions of euros)			
<b>Purchase of intangible and tangible assets on an accrual basis .....</b>	<b>3</b>	<b>2</b>	<b>3</b>	Acquisition from other minor companies

#### **TRANSACTIONS WITH COMPANIES CONTROLLED BY ASSOCIATES AND JOINT VENTURES**

Following the September 23, 2010 subscription to Italtel Group S.p.A.'s capital increase, the stake held in that company by the Telecom Italia Group, through ordinary and preferred shares, rose from 19.37% to 34.68%, with a concomitant modification of governance. Consequently, from that date, the company was considered an associate and the companies controlled by Italtel Group S.p.A. are considered related parties of the Telecom Italia Group.

On October 13, 2010, the Sofora group entered the scope of consolidation after the stake held in the share capital of Sofora Telecomunicaciones S.A., the holding company of the Telecom Argentina group, was increased from 50% to 58%. Up to that date, Sofora Telecomunicaciones S.A. had been an associate and therefore a related party; the companies controlled by Sofora Telecomunicaciones S.A. had been related parties in that they had been subsidiaries of associates.

The most significant amounts are summarized as follows:

Separate consolidated income statement line items	2011	2010	2009	Type of contract
	(millions of euros)			
<b>Revenues</b>				
● Italtel group .....	2	1	—	Supply of goods and services and sale of products
● Sofora group—Telecom Argentina .....	—	21	26	International telecommunications services and roaming; data and voice services, supply of "IRU" transmission capacity; supply of advanced platforms and technical assistance provided by Telecom Italia for the development of broadband and the study of Value-Added Services
<b>Total revenues .....</b>	<b>2</b>	<b>22</b>	<b>26</b>	
<b>Other income .....</b>	<b>1</b>	<b>—</b>	<b>—</b>	Commercial settlement with the Italtel group
<b>Acquisition of goods and services</b>				
● Italtel group .....	42	21	—	Hardware upgrade services, software development, maintenance and assistance contracts, platform updates, supply and management of customized offerings and supply and maintenance of switching equipment
● Sofora group—Telecom Argentina .....	—	4	6	International telecommunications services and roaming
<b>Total acquisition of goods and services .....</b>	<b>42</b>	<b>25</b>	<b>6</b>	

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Consolidated statement of financial position line items	As of December 31, 2011	As of December 31, 2010	Type of contract	
	(millions of euros)			
Trade and miscellaneous receivables and other current assets .....	1	1	Supply of goods and services and sale of products to the Italtel Group	
	=	=		
Trade and miscellaneous payables and other current liabilities .....	45	39	Hardware upgrade services, software development, maintenance and assistance contracts and supply of equipment from the Italtel group	
	=	=		
Consolidated statement of cash flows line items	2011	2010	2009	Type of contract
	(millions of euros)			
Purchase of intangible and tangible assets on an accrual basis .....	162	59	—	Telecommunications equipment from Italtel group
	—	—	—	

At December 31, 2011, the Telecom Italia group has provided guarantees on behalf of associates for a total of 6 million euros mainly on behalf of Aree Urbane S.r.l. (5 million euros). At December 31, 2010, guarantees had been provided for a total of 16 million euros: on behalf of Aree Urbane S.r.l. 5 million euros, EtecSA (Cuba) 3 million euros, TM News S.p.A. 2 million euros and Italtel group 6 million euros and weak comfort letters had been issued for a total of 32 million euros on behalf of EtecSA (Cuba) on vendor loans. Such letters were closed on January 31, 2011 when the investment was sold.

#### **TRANSACTIONS WITH OTHER RELATED PARTIES (through Directors, Statutory Auditors and Key Managers)**

The "Procedure for carrying out transactions with related parties"—approved on November 4, 2010 by the board of directors of the Company—provides that the procedure should be applied also to parties who, regardless of whether they qualify as related parties as set out in the accounting principles, participate in important shareholders' agreements according to art. 122 of the Consolidated Law on Finance, which disciplines the candidacy to the position as director of Telecom Italia, where the slate presented is the majority slate pursuant to art. 9 of the bylaws of the Company.

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The most significant amounts are summarized as follows:

### Separate consolidated income statement line items

	2011	2010	2009	Type of contract
	(millions of euros)			
<b>Revenues</b>				
• ATM group	2	1	1	Supply of customized services and business data network
• Generali group	74	62	53	Supply of telephone and data transmission services, peripheral data networks, connections, storage and telecommunications equipment and services for foreign holdings
• Intesa SanPaolo group	79	95	121	Telephone and MPLS and international data network services, ICT services, Microsoft licenses, internet connectivity and high-speed connections
• Mediobanca group	7	6	6	Telephone and MPLS data network services and marketing of data and VoIP devices
• Telefónica group	845	712	596	Interconnection services, roaming, broadband access fees, supply of "IRU" transmission capacity and software
• Other minor companies and companies that are no longer related parties	—	—	7	Supply of telephone and data transmission services outsourced managed with dedicated assistance work on network (Edizioni group)
<b>Total revenues</b>	<b>1,007</b>	<b>876</b>	<b>784</b>	
<b>Other income</b>	<b>1</b>	<b>4</b>	<b>3</b>	Damage compensation from the Generali group
<b>Acquisition of goods and services</b>				
• China Unicom group	—	1	2	International telecommunication services and roaming services
• Generali group	30	27	25	Insurance premiums and property leases
• Intesa SanPaolo group	17	13	16	Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards
• Mediobanca group	1	4	2	Credit recovery activities
• Telefónica group	622	477	507	Interconnection, roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling
• Other minor companies	1	—	8	Sponsorships, commissions for the sale of prepaid telephone cards, Fees for laying telephone cables along expressways and TV and internet rights connected with sports events (Edizioni group)
<b>Total acquisition of goods and services</b>	<b>671</b>	<b>522</b>	<b>560</b>	
<b>Employee benefits expenses</b>	<b>4</b>	<b>4</b>	<b>4</b>	Non-obligatory employee insurance taken out with the Generali group Expenses and fees to Mediobanca group and Intesa San Paolo group
<b>Gains (losses) on disposal of non-current assets</b>	<b>—</b>	<b>(1)</b>	<b>—</b>	incurred for sale transactions of investments
<b>Finance income</b>				
• Intesa SanPaolo group	112	122	33	Bank accounts, deposits and hedging derivatives
• Mediobanca group	15	31	31	Bank accounts, deposits and hedging derivatives
<b>Total Finance Income</b>	<b>127</b>	<b>153</b>	<b>64</b>	
<b>Finance expenses</b>				
• Intesa SanPaolo group	55	26	29	Term Loan Facility, Revolving Credit Facility, hedging derivatives, loans and bank accounts
• Mediobanca group	7	22	219	Term Loan Facility and Revolving Credit Facility and hedging derivatives
<b>Total Finance expenses</b>	<b>62</b>	<b>48</b>	<b>248</b>	
<b>Total Profit (loss) from Discontinued Operations/ Non-current assets held for sale</b>	<b>—</b>	<b>—</b>	<b>(90)</b>	Interconnection and roaming services of HanseNet GmbH (included in Discontinued Operations) to Telefonica group

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Consolidated statement of financial position line items	As of December 31, 2011	As of December 31, 2010	Type of contract
	(millions of euros)		
<b>Non-current financial assets</b>			
• Intesa SanPaolo group .....	239	81	Hedging derivatives
• Mediobanca group .....	30	28	Hedging derivatives
<b>Total non-current financial assets .....</b>	<b>269</b>	<b>109</b>	
<b>Securities other than investments (Current assets)</b>			
• Generali group .....	2	2	Bonds
• Intesa SanPaolo group .....	1	7	Bonds
• Mediobanca group .....	5	5	Bonds
<b>Total securities other than investments (Current assets) .....</b>	<b>8</b>	<b>14</b>	
<b>Financial receivables and other current financial assets</b>			
• Intesa SanPaolo group .....	27	10	Hedging derivatives
• Mediobanca group .....	1	13	Hedging derivatives
<b>Total financial receivables and other current financial assets .....</b>	<b>28</b>	<b>23</b>	
<b>Cash and cash equivalents .....</b>	<b>278</b>	<b>113</b>	Bank accounts and deposits with Intesa SanPaolo group
<b>Non-current financial liabilities</b>			
• Intesa San Paolo group .....	233	176	Revolving Credit Facility, hedging derivatives, loans and financial lease liabilities
• Mediobanca group .....	99	62	Revolving Credit Facility and hedging derivatives
<b>Total non-current financial liabilities .....</b>	<b>332</b>	<b>238</b>	
<b>Current financial liabilities</b>			
• Intesa SanPaolo group .....	56	127	Bank accounts, hedging derivatives, finance lease liabilities and other financial payables
• Mediobanca group .....	1	1	Hedging derivatives
• Telefónica group .....	1	—	Financial liabilities from previous corporate-related transactions
<b>Total current financial liabilities .....</b>	<b>58</b>	<b>128</b>	
<b>Other statement of financial position line items</b>			
<b>Trade and miscellaneous receivable and other current assets</b>			
• ATM group .....	2	1	Supply of customized services and business data network
• China Unicom group .....	—	1	Supply of international telecommunications services and roaming
• Generali group .....	19	26	Supply of telephone and data transmission services, peripheral data networks, connections, storage, applications services and supply of telecommunications equipment and services for foreign holdings
• Intesa SanPaolo group .....	98	89	Factoring services, telephone and MPLS data and international network services, ICT services, Microsoft licenses, internet connectivity and high-speed connections
• Mediobanca group .....	1	—	Telephone and MPLS data network services and marketing of data and VoIP devices
• Telefónica group .....	99	86	Interconnection services, roaming, broadband access fees, supply of "IRU" transmission capacity and software
• Other minor companies .....	1	1	
<b>Total trade and miscellaneous receivables and other current assets .....</b>	<b>220</b>	<b>204</b>	

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Consolidated statement of financial position line items	As of December 31, 2011	As of December 31, 2010	Type of contract	
	(millions of euros)			
Miscellaneous payables and other non-current liabilities .....	3	4	Deferred income relating to the supply of "IRU" transmission capacity to the Telefónica group	
	==	==		
Trade and miscellaneous payables and other current liabilities				
● A1 Investments group .....	1	1	Acquisition of "FISM rights"	
● China Unicom group .....	—	1	International telecommunications services and roaming	
● Intesa SanPaolo group .....	86	159	Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards and sale of trade receivables	
● Mediobanca group .....	1	1	Credit recovery activities	
● Telefónica group .....	79	73	Interconnection services, roaming, site sharing, co-billing agreements, broadband line sharing and unbundling	
● Other minor companies .....	—	1		
Total trade and miscellaneous payables and other current liabilities .....	167	236		
	==	==		
Consolidated statement of cash flows line items	2011	2010	2009	Type of contract
	(millions of euros)			
Purchase of intangible and tangible assets on an accrual basis .....	1	1	19	Capitalization of costs connected with "FISM rights" to the A1 Investments group
	==	==	==	
Dividends paid				
Telco .....	174	150	164	Dividends paid
Other minor .....	17	13	12	Dividends paid
Total dividends paid .....	191	163	176	
	==	==	==	

On February 23, 2012, a settlement agreement was reached between the Telecom Italia Group and Telefonica Germany over certain claims connected with the sale of the investment in HanseNet in 2010.

As established by the internal Procedure for the management of related party transactions, this agreement was submitted, after the Steering Committee's review, to the approval of the Committee for Internal Control and Corporate Governance which expressed a favorable opinion. Further details are provided in the Note "Contingent liabilities, other information, commitments and guarantees".



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## TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate consolidated income statements line items	2011	2010	2009	Type of contract
	(millions of euros)			
<b>Employee benefits expenses</b>				Contributions to pension funds
• Fontedir .....	12	13	14	
• Telemaco .....	73	74	74	
• Other Italian and foreign pension funds .....	6	6	4	
<b>Total employee benefits expenses ...</b>	<b>91</b>	<b>93</b>	<b>92</b>	
Consolidated statement of financial position line items	As of December 31, 2011	As of December 31, 2010		Type of contract
	(millions of euros)			
<b>Trade and miscellaneous payables and other current liabilities .....</b>				Payables for contributions to pension funds
• Fontedir .....	4	5		
• Telemaco .....	24	25		
• Other Italian and foreign pension funds .....	2	2		
<b>Total trade and miscellaneous payables and other current liabilities .....</b>	<b>30</b>	<b>32</b>		
Consolidated statement of cash flows line items	2011	2010	2009	Type of contract
	(millions of euros)			
Dividends paid .....	1	1	1	Dividends paid to Italian pension fund

\* \* \*

## Remuneration to key managers

In 2011, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to 18.4 million euros (15 million euros in 2010), analyzed as follows:

	2011	2010
	(millions of euros)	
Short-term remuneration (1) .....	15.7	11.7
Long-term remuneration (2) .....	1.4	1.7
Employment termination benefit incentives (3) .....	0.05	0.4
Share-based payments (4) (*) .....	1.2	1.2
	<b>18.4</b>	<b>15.0</b>

(1) of which 2.5 million euros recorded by the listed South American subsidiaries (0.3 million euros in 2010).

(2) of which 0.5 million euros recorded by the listed South American subsidiaries (0.2 million euros in 2010).

(3) of which 0.05 million euros recorded by the listed South American subsidiaries (0.4 million euros in 2010).

(4) of which 0.3 million euros recorded by the listed South American subsidiaries.

(\*) These refer to the fair value of the rights, vested to December 31, under the share-based incentive plans (PSG, TOP 2008 and LTI 2011) of Telecom Italia S.p.A. and its subsidiaries.

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In the 2011, the contributions paid in to defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A. or by subsidiaries of the Group on behalf of key managers amount to 344,000 euros (353,000 euros in 2010).

Key managers, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the Telecom Italia Group, including directors, are the following:

**Directors:**

Gabriele Galateri di Genola .....	Chairman of Telecom Italia S.p.A.(1)
Franco Bernabè .....	Chief Executive Officer of Telecom Italia S.p.A.(1) Executive Chairman and Chief Executive Officer of Telecom Italia S.p.A.(2)
Marco Patuano .....	Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.(2)

**Managers:**

Franco Bertone .....	Dirección General Ejecutiva (CEO) Telecom Argentina
Franco Brescia .....	Head of Public & Regulatory Affairs(3)
Oscar Cicchetti(4) .....	Head of Technology & Operations
Stefano Ciurli .....	Head of Supply Chain & Real Estate
Antonino Cusimano .....	Head of Legal Affairs
Luca Luciani .....	Chief Executive Officer of Tim Brasil
Andrea Mangoni .....	Head of Administration, Finance and Control and International Development
Antonio Migliardi .....	Head of Human Resources and Organization
Giuseppe Roberto Opilio(5) .....	Head of Technology
Luca Rossetto .....	Head of Consumer(3)
Alessandro Talotta .....	Head of National Wholesale Services(3)

(1) to April 12, 2011

(2) from April 13, 2011

(3) from July 7, 2011

(4) to April 14, 2011

(5) from April 15, 2011

**NOTE 39—EQUITY COMPENSATION PLANS**

Equity compensation plans in effect at December 31, 2011 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.

However, it should be noted that these plans do not have any significant effect on the economic result or on the financial position or on cash flows at December 31, 2011.

The Telecom Italia and Tim Participações compensation plans are described in the following paragraphs.

**Description of stock option plans**

● **Telecom Italia S.p.A. Top 2008 Stock Option Plan**

This plan refers to options granted on April 15, 2008 to the then chairman and chief executive officer, originally for 11,400,000 options, exercisable at the end of the vesting period, expiring after three years from the grant date at a price of 1.95 euros per option. The exercise period is from April 15, 2011 to April 15, 2014. Each option gives the right to one Telecom Italia S.p.A. ordinary share.

75% of the options granted (equal to 8,550,000 options) are not subject to performance targets and remain valid while the remaining 25% (equal to 2,850,000 options) were forfeited in 2010 because the performance targets were not reached. During 2011, no options were exercised.

Unexercised options expire at the end of the plan.

### ● Tim Participações Stock Option Plan

A long-term incentive plan for managers in key positions in the company and its subsidiaries was approved by the shareholders' meeting of Tim Participações S.A. on August 5, 2011. The option to purchase shares was granted to certain directors and employees. On the grant date of August 5, 2011, the exercise price of the options granted was calculated using the weighted average price of the shares of Tim Participações S.A. considering volumes traded and the market price of the company's shares in the 30 days prior to July 20, 2011 (the date on which the board of directors approved the incentive plan).

The exercise of the options is subordinate to reaching two performance objectives simultaneously: the increase in value of the company's ordinary shares and the performance of the prices of the company's shares against a reference index, defined by the directors of Tim Participações S.A. and composed principally of the share price of other companies in the telecommunications, information technology and media sectors.

Performance targets refer to the three years 2011-2013 and performance is recorded in July of each year. The period of the options is six years, and one-third of these options can be exercised after the first half of 2012, another one-third after the first half of 2013 and the remaining one-third after the first half of 2014. The options are exercisable up to six years starting from the grant date; the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

On August 5, 2011, the grantees of the options were granted the right to purchase a total of 2,833,596 shares.

As of December 31, 2011, there were no options that could have already been exercised.

Under the accrual basis of accounting, the expenses connected with the long-term incentive plan were allocated monthly and at December 31, 2011 amounted to about 4 million Brazilian reais (about 2 million euros).

### Description of other equity compensation plans

#### ● Performance Share Granting Plan 2008-2011

The Plan grants free Telecom Italia ordinary shares to beneficiaries (Top Management of Telecom Italia or subsidiaries) for a pre-determined maximum and variable number of shares, according to the period of each individual beneficiary's effective participation in the plan and the extent to which the pre-set share performance targets have been reached.

Since the performance targets were not met, all the rights were forfeited and the plan expired on June 30, 2011.

#### ● Broad-based Employee Share Ownership Plan

The Plan consists of a subscription offering for Telecom Italia ordinary shares at a discount off the market price, reserved for employees of Telecom Italia or companies controlled by Telecom Italia with registered offices in Italy. A further grant of ordinary shares shall be made, in a ratio of one bonus share for every three subscribed shares, subject to retaining the subscribed shares and maintaining an employment relationship with companies of the Telecom Italia Group.

The first part of the plan was completed and on July 29, 2010 a number of Telecom Italia ordinary shares were issued equal to 27,056,139 (of which 24,427,422 were reserved for employees of Telecom Italia S.p.A. and 2,628,717 for employees of Italian subsidiaries).

These shares were offered for subscription at a per share price of 0.84 euro, corresponding to the arithmetic mean of the market price of the shares between May 25, 2010 and June 25, 2010, discounted by 10%.

On August 2, 2011, capital was increased by the grant of 8,876,296 bonus ordinary shares to those entitled, for a total par value of 4,881,962.80 euros.

### ● Long Term Incentive Plan 2010-2015 (LTI Plan 2010-2015)

The Plan grants, to a selected number of Group management who are not already beneficiaries of other long-term incentive plans, a cash bonus based on three-year performance measured against pre-set targets, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price. At the end of the three-year performance period, if the manager decides to invest half of the bonus, retaining these shares and maintaining an employment relationship with companies of the Group for the next two years, the manager will have the right to the grant of an equal number of free ordinary shares.

The performance targets are measured using the Total Shareholder Return of Telecom Italia (TSR TI) and Free Cash Flow (FCF). In particular, the payment of 65% of the bonus will be linked to the relative TSR TI in the three years 2010-2012 whereas the payment of 35%, instead, will be linked to an absolute performance indicator represented by the cumulative FCF during the period 2010-2012.

The beneficiaries were identified in relation to the person's organizational role and strategic potential and the bonus was determined as a percentage of the beneficiary's fixed annual compensation.

At the start of the Plan, the total maximum bonus potentially available to the 121 beneficiaries at the end of the three years was 8,754,600 euros, eventually to be paid in cash in early 2013 in a variable amount in relation to the level of the pre-set three-year 2010-2012 performance targets reached. The option of investing 50% of the bonus in Telecom Italia ordinary shares would have determined, at the time of the grant, a share capital increase in cash reserved for the beneficiaries for the maximum equivalent of 4,377,300 euros, and this same amount was the maximum value of the bonus grant and the relative bonus increase in capital.

Beneficiaries of the Plan who subscribed to the shares and observed the terms and conditions above, in early 2015 will be allocated profits, under ex art. 2349 of the Italian Civil Code, through the issue of one bonus share for every subscribed share.

In reference to the situation at December 31, 2011, the total maximum bonus that may be granted to the 117 beneficiaries is 8,236,350 euros; the maximum amount of the investment at market price, and the relative capital increase in cash, is therefore equal to an equivalent amount of 4,118,175 euros, and this same amount was the maximum value of the bonus grant, and the relative bonus increase in capital.

### ● Long Term Incentive Plan 2011 (LTI Plan 2011)

The new plan, approved by the shareholders' meeting on April 12, 2011, replicates the basic rationale of the LTI 2010-2015 Plan. It covers Executive Management, Top Management and Selected Management. The plan is formulated according to a rolling perspective so that, normally, each year a new incentive cycle comes into effect, factored over the time frame of the company's strategic planning. An exception to this is the incentive plan for Executive Management, formulated in "one-off" terms consistently with the standard term of the mandate.

The objective of the plan is to reinforce the connection between management's compensation and, on one hand, company performance defined in the business plan 2011-2013 (measured by the cumulative Free Cash Flow in the three years 2011-2013 (so-called absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers (measured by the Total Shareholder Return (so-called relative performance: 65% weighted).

The plan calls for granting:

- to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;
- to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia ordinary shares after two years;
- to Executive Management, a bonus in cash and an equivalent number of Telecom Italia ordinary shares determined when the person is included in the Executive Management group of the Plan.

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On July 7, 2011, the board of directors approved the start of the Plan. When the Plan started, besides the Executive Chairman and the Chief Executive Officer, the Plan covered 17 Top Managers and 128 Managers. The estimated maximum incentive for the three categories of incentive beneficiaries at the start of the Plan was equal to:

- for Selected Management a total bonus of 9,789,300 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, was equal to an equivalent amount of 4,894,650 euros, and this same amount was the maximum value of the bonus grant and the relative bonus increase in capital;
- for Top Management a total bonus of 6,512,400 euros, of which the equivalent maximum amount of the bonus grant, and the relative bonus increase in capital was 3,256,200 euros;
- for Executive Management a total bonus of 5,400,000 euros and a corresponding maximum number of 5,795,234 shares, represented by treasury shares.

Indicatively, in reference to the situation at December 31, 2011, besides the Executive Chairman and the Chief Executive Officer, 17 Top Managers and 126 Managers are still beneficiaries of the Plan. The maximum incentive at December 31, 2011 is equal to:

- for Selected Management, a total bonus of 9,494,250 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, is equal to an equivalent amount of 4,747,125 euros, and this same amount was the maximum value of the bonus grant, and the relative bonus increase in capital;
- for Top Management, a total bonus of 6,512,400 euros, of which the maximum equivalent amount of the bonus grant, and the relative bonus increase in capital is 3,256,200 euros;
- for Executive Management, a bonus of 5,400,000 euros and a corresponding maximum number of 5,795,234 shares, represented by treasury shares.

### Calculation of fair value measurement of the granted options and rights

The fair value of the options relating to the “Top 2008 Plan” was calculated using the Monte Carlo method according to the calculation parameters reported in the following table.

For the Broad-based Employee Share Ownership Plan, the theoretical fair value of the right to the bonus shares was calculated using a 12-month call option on the Telecom Italia ordinary share.

For the LTI Plans (2010-2015 and 2011), the following was measured:

- the debt component, determined as follows:
  - the 65% linked to reaching TSR targets was calculated as the average of the levels of expected bonus weighted by the probability of the relative TSR scenarios occurring; such probability is measured using the Monte Carlo method;
  - the 35% linked to reaching FCF targets was calculated as the bonus level according to the best estimate of expected FCF by making reference to the data of the Telecom Italia three-year plan;
- the equity component, determined as the theoretical value of the right to the bonus share calculated as the fair value of a 24-month call option on the Telecom Italia ordinary share, starting in three years.

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### Parameters used to determine fair value—Telecom Italia S.p.A.

Plans/Parameters	Exercise price (euro)	Current price / Spot (euro) (1)	Volatility (2)	Period	Expected dividends (euro) (3)	Risk-free interest rate (4)
TOP 2008 Plan	1.95	Market value Telecom Italia and other TLC companies at 4/15/2008	Telecom Italia (33.02%) and other TLC companies	3 years	0.08	3.7485% at 6 years
Broad-based Employee Share Ownership Plan	—	0.9668	36.233%	1 year	0.055	1.196 at 1 year
LTI Plan 2010-2015 equity component	—	0.9219	33.4281%	5 years	0.055 first year 0.060 second year	1.89 at 5 years
LTI Plan 2011 equity component Executive Management	—	0.8044	n.a.	3 years	0.05	2.095 at 3 years
LTI Plan 2011 equity component (Top Management and Selected Management)	—	0.7298	n.a.	5 years	0.07	2.591% at 5 years

(1) In relation to the performance targets set in the Plan, consideration was given to the market prices of Telecom Italia shares and, if necessary, of other shares of the leading companies in the telecommunications sector at the grant date.

(2) In relation to the performance targets set in the Plan, consideration was given to the volatility values of the Telecom Italia share and, if necessary, of the shares of the leading companies in the telecommunications sector.

(3) Dividends were assumed to be constant over the life of the options on the basis of the latest dividends paid. For the LTI Plan 2010—2015, LTI Plan 2011 and the Broad-based Employee Share Ownership Plan, the dividends were estimated on the basis of the Bloomberg Agency's data.

(4) The risk-free interest rate is considered the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the life of the option.

### Parameters used to determine fair value—Tim Participações

Plan/parameter	Exercise price (reais)	Current price/spot (reais)	Volatility	Period	Expected dividends (reais)	Risk-free interest rate
Tim Participacoes stock option plan(1) ...	<u>8.84</u>	<u>8.31</u>	<u>51.73%</u>	<u>6 years</u>	<u>—</u>	<u>11.94 % year</u>

(1) The exercise price indicated represents the basic assumption at the start of the plan.

### Effects on the income statement and statement of financial position

Compensation plans which call for payment in equity instruments are recorded at fair value which represents the cost of such instruments at the grant date and is recorded in the separate income statements under Employee benefits expenses over the period between the grant date and the vesting period with a contra-entry to the equity reserve "Other equity instruments". The part of the plans which call for the payment of compensation in cash is recorded in liabilities as the contra-entry of "Employee benefits expenses"; at the end of each year the liabilities is measured at fair value.

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Plan	Plan grant date	Total fair value at grant date, of which component:		Total fair value at December 31, 2011 of which component:		At December 31, 2011				Cumulative costs, including those of year	Total effect on equity (*)	Effect on separate consolidated income statement 2011 (*)
		Equity	Debt	Equity	Debt	Other equity instruments reserve	Paid-in capital	Other reserves				
		(millions of euros)										
Telecom Italia S.p.A.												
Top 2008 Plan . . . .	04/15/2008	3	—	2	—	2	—	1	(3)	—	—	
Performance Share Granting 2008-2011 . . . . .	08/08/2008	3	—	—	—	—	—	2	(2)	—	—	
Broad-based Plan . . . . .	07/29/2010	12	—	—	—	—	7	5	(12)	—	(4)	
LTI Plan 2010-2015 . . . . .	07/29/2010	1	2	1	2	—	—	—	(2)	(2)	(1)	
LTI Plan 2011 . . . .	07/07/2011	4	7	4	8	1	—	—	(3)	(2)	(3)	
Tim Participacoes S.A.												
Tim Participacoes Stock option plan . . . . .	08/05/2011	5	—	5	—	2	—	—	(2)	—	(2)	

(\*) The effects on equity and on the separate consolidated income statement are gross of the tax effect and refer to the share attributable to owners of the Parent and to non-controlling interests.

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## NOTE 40—OTHER INFORMATION

### a) Exchange rates used to translate the financial statements of foreign operations(\*)

(Local Currency against 1 euro)	Year-end exchange rates (statements of financial position)			Average exchange rates for the year (income statements and statements of cash flows)		
	12/31/2011	12/31/2010	12/31/2009	Year 2011	Year 2010	Year 2009
<b>Europe</b>						
BGN Bulgarian Lev .....	1.95580	1.95580	1.95580	1.95580	1.95580	1.95580
CZK Czech Koruna .....	25.78700	25.06100	26.47300	24.59461	25.28441	26.43714
HUF Hungarian Forint .....	314.58000	277.9500	270.42000	279.47926	275.43744	280.31935
CHF Swiss Franc .....	1.21560	1.25040	1.48360	1.23256	1.38036	1.50996
TRY Turkish Lira .....	2.44320	2.06940	2.15470	2.33825	1.99706	2.16256
GBP Pound Sterling ....	0.83530	0.86075	0.88810	0.86775	0.85804	0.89132
RON Romanian Leu ....	4.32330	4.26200	4.23630	4.23931	4.21185	4.23826
<b>North America</b>						
USD U.S. Dollar .....	1.29390	1.33620	1.44060	1.39162	1.32620	1.39442
<b>Latin America</b>						
VEF Venezuelan Bolívar .....	3.35994	3.46978	3.09340	3.61338	3.42870	2.99425
BOB Bolivian Boliviano .....	8.96385	9.36676	10.11300	9.74040	9.30962	9.79228
PEN Peruvian Nuevo Sol .....	3.48747	3.75086	4.16189	3.83245	3.74631	4.19072
ARS Argentinean Peso .....	5.56769	5.30994	5.46185	5.74419	5.18735	5.20788
CLP Chilean Peso .....	671.99700	625.27500	730.74400	672.51441	675.52315	776.67296
COP Colombian Peso ...	2,510.57000	2,571.38000	2,943.76000	2,569.51702	2,516.50868	2,990.09031
MXN Mexican Peso .....	18.05120	16.54750	18.92230	17.29084	16.74302	18.79029
BRL Brazilian Real .....	2.42710	2.22638	2.50837	2.32669	2.33215	2.76933
PYG Paraguayan Guarani .....	5,794.08000	6,090.40000	—	5,817.48337	6,275.59686	—
UYU Uruguayan Peso ..	25.92850	26.86160	—	26.93149	26.60631	—
<b>Other countries</b>						
ILS Israeli Shekel .....	4.94530	4.73775	5.45452	4.97723	4.94668	5.46601

(\*) Source: data processed by the European Central Bank, Reuters and major Central Banks.

### b) Research and development

Expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:

	2011	2010	2009
	(millions of euros)		
Research and development costs expensed during year .....	68	64	74
Development costs capitalized .....	543	634	768
<b>Total research and development costs (expensed and capitalized) .....</b>	<b>611</b>	<b>698</b>	<b>842</b>

Moreover, in the separate consolidated income statement for 2011 amortization charges are recorded for development costs, capitalized during the period and in prior periods, for an amount of 769 million euros.



Consolidated Financial Statements	Notes To Consolidated Financial Statements
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### c) Operating leases

#### Revenue related

The Group has signed contracts for the lease of direct connections, in particular numeric and analog lines, offered under wholesale plans to other interconnecting operators.

At December 31, 2011, the amount of lease installments receivable on non-cancelable lease contracts is equal to 4 million euros (4 million euros at December 31, 2010) and all of them are due within one year.

#### Expense related

The Group has signed lease contracts for buildings (for periods from 6 to 9 years) and lines. At December 31, 2011, the amount of lease installments payable on non-cancelable lease contracts is the following:

	At December 31, 2011	At December 31, 2010
	(millions of euros)	
Within 1 year .....	215	234
From 2 to 5 years .....	605	573
Beyond 5 years .....	155	65
<b>Total</b> .....	<b>975</b>	<b>872</b>

### NOTE 41—EVENTS SUBSEQUENT TO DECEMBER 31, 2011

#### Process for the disposal of the activities in the media sector

On May 9, 2012, the Telecom Italia Board of Directors has decided to begin the process for the disposal of the activities in the media sector.

### NOTE 42—LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders' meeting if different than the percentage holding of share capital, and which companies hold the investment.

Consolidated Financial Statements	Notes To Consolidated Financial Statements
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## Telecom Italia Group

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
<b>PARENT COMPANY</b>						
TELECOM ITALIA S.p.A.	MILAN (ITALY)	EUR	10,693,628,019			
<b>Subsidiaries consolidated line-by-line</b>						
<b>DOMESTIC BUSINESS UNIT</b>						
4G HOLDING S.p.A.	TURIN	EUR	20,333,384	71.000		TLC COMMERCIAL SERVICES S.r.l.
(holding company)	(ITALY)					
4G RETAIL S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	TURIN (ITALY)	EUR	2,402,241	100.0000		4G HOLDING S.p.A.
FLAGSHIP STORE BOLOGNA 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	BOLOGNA (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE BOLZANO 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	BOLZANO (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE CATANIA 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	CATANIA (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE FIRENZE 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	FLORENCE (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE MILANO 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	MILAN (ITALY)	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE MILANO 2 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	MILAN (ITALY)	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE MODENA 1 S.r.l. (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	MODENA (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
FLAGSHIPSTORE ROMA 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	ROME  (ITALY)	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIPSTORE ROMA 2 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	ROME  (ITALY)	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE SANREMO 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	SANREMO  (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIPSTORE TARANTO 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	TARANTO  (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIPSTORE TORINO 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	TURIN  (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE VERONA 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	VERONA  (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIPSTORE VICENZA 1 S.r.l.  (sale of products and services in the field of fixed and mobile telecommunications and sale of every means of diffusion, both analog and digital)	VICENZA  (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
H.R. SERVICES S.r.l. (planning, development and supply of training services)	L'AQUILA (ITALY)	EUR	500,000	100.0000		TELECOM ITALIA S.p.A.
I.T. TELECOM S.r.l. (software development and software consulting)	POMEZIA (ROME – ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
LAN MED NAUTILUS Ltd  (installation and maintenance of submarine cable systems)	DUBLIN  (IRELAND)	USD	1,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	95.0000 5.0000		LAN MED NAUTILUS Ltd TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS BOLIVIA SRL (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	1,747,600	99.9943 0.0057		TELECOM ITALIA SPARKLE S.p.A. LATIN AMERICAN NAUTILUS USA Inc.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	6,850,598	99.9999  0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	8,844,866	99.9999  0.0001		LAN MED NAUTILUS Ltd  TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	13,101,482,259	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA' (COLOMBIA)	COP	240,225,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO D.F. (MEXICO)	MXN	100,000	99.9999  0.0001		LAN MED NAUTILUS Ltd  LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	LIMA (PERU)	PEN	56,865,179	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEF	981,457	100.0000		LAN MED NAUTILUS Ltd
MATRIX S.p.A. (internet services)	MILAN (ITALY)	EUR	2,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (THE NETHERLANDS)	EUR	18,200	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l. (installation and management submarine cable systems in Italian seas)	ROME (ITALY)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
MED-1 SUBMARINE CABLES Ltd  (installation and management of cable Lev)	RAMAT GAN  (ISRAEL)	ILS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	AMSTERDAM (THE NETHERLANDS)	EUR	18,003	100.0000		LAN MED NAUTILUS Ltd
MEDITERRANEAN NAUTILUS BULGARIA EOOD (telecommunications services)	SOFIA (BULGARIA)	BGN	100,000	100.0000		MEDITERRANEAN NAUTILUS B.V.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ISRAEL Ltd (telecommunications services, installation and management of submarine cable systems)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS TELEKOMÜNİKASYON HİZMETLERİ TICARET ANONİM ŞİRKETİ (telecommunications services)	ISTANBUL (TURKEY)	TRY	5,639,065	99.9996		MEDITERRANEAN NAUTILUS B.V.
				0.0001		LAN MED NAUTILUS Ltd
				0.0001		MEDITERRANEAN NAUTILUS ITALY S.p.A.
				0.0001		MEDITERRANEAN NAUTILUS ISRAEL Ltd
				0.0001		MEDITERRANEAN NAUTILUS GREECE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.
SHARED SERVICE CENTER S.r.l. (planning, design, installation running of computer services)	ROME (ITALY)	EUR	3,061,006	100.0000		TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES- SCARL (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (THE NETHERLANDS)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	ROVERETA-FALCIANO REPUBLIC OF SAN MARINO	EUR	1,808,000	99.9999		TELECOM ITALIA SPARKLE S.p.A.
				0.0001		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE CZECH S.R.O. (telecommunications services)	PRAGUE (CZECH REPUBLIC)	CZK	6,720,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE EST S.R.L. (telecommunications services)	BUCHAREST (ROMANIA)	RON	3,021,560	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE HUNGARY K.F.T. (telecommunications services)	BUDAPEST (HUNGARY)	HUF	2,870,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	5,121,120	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC.
TELECOM ITALIA SPARKLE SLOVAKIA S.R.O. (telecommunications services)	BRATISLAVA (SLOVAKIA)	EUR	300,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	3,000,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services)	B.GO MAGGIORE REPUBLIC OF SAN MARINO	EUR	78,000	51.0000		TELECOM ITALIA SAN MARINO S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	100.0000		TELECOM ITALIA S.p.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted crypto's telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TI BELGIUM S.P.R.L.—B.V.B.A. (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GMBH (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIS France S.A.S. (installation and maintenance of telecommunication services for fixed network and relating activities)	PARIS (FRANCE)	EUR	18,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TLC COMMERCIAL SERVICES S.r.l. (purchase and management of financial investments focused on the sale of products and services in the field of telecommunications and ICT)	ROME (ITALY)	EUR	500,000	100.0000		TELECOM ITALIA S.p.A.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TMI—TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA (telecommunications services)	SAO PAULO (BRAZIL)	BRL	8,909,639	100.0000		TMI—TELEMEDIA INTERNATIONAL Ltd
<b>BRAZIL BUSINESS UNIT</b>						
INTELIG TELECOMUNICAÇÕES LTDA (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	3,279,157,267	99.9999		TIM PARTICIPAÇÕES S.A.
				0.0001		TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,169,029,858	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAULO (BRAZIL)	BRL	9,355,215,720	100.0000		TIM PARTICIPAÇÕES S.A.
TIM FIBER RJ S.A. (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	52,814,659	99.1079		TIM CELULAR S.A.
TIM FIBER SP Ltda (telecommunications services)	SAO PAULO (BRAZIL)	BRL	36,609,943	100.0000		TIM CELULAR S.A.
TIM PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	9,886,886,593	66.6756		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
				0.0329		TIM PARTICIPAÇÕES S.A.
<b>ARGENTINA BUSINESS UNIT</b>						
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	360,000	99.9900		TELECOM ARGENTINA S.A.
				0.0100		NORTEL INVERSORA S.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	72,026,490	74.0061	100.0000	SOFORA TELECOMUNICACIONES S.A.
				1.6326		TIERRA ARGENTEA S.A. (ex INVERSIONES MILANO)
NUCLEO S.A. (mobile telecommunications services)	ASUNCION (PARAGUAY)	PYG	146,400,000,000	67.5000		TELECOM PERSONAL S.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	35,5000		TELECOM ITALIA INTERNATIONAL S.A.
				32,5000		TELECOM ITALIA S.p.A.
SPRINGVILLE S.A. (mobile telecommunications services)	MONTEVIDEO (URUGUAY)	UYU	8,082,112	100.0000		TELECOM PERSONAL S.A.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54,7417		NORTEL INVERSORA S.A.
				1.5780		TIERRA ARGENTEA S.A. (ex INVERSIONES MILANO)
TELECOM ARGENTINA USA INC. (telecommunications services)	DELAWARE (USA)	USD	219,973	100.0000		TELECOM ARGENTINA S.A.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELECOM PERSONAL S.A. (mobile telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	310,514,481	99.9923 0.0077		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
<b>MEDIA BUSINESS UNIT</b>						
BEIGUA S.r.l.  (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME  (ITALY)	EUR	51,480	51.0004		TELECOM ITALIA MEDIA BROADCASTING S.r.l.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		TELECOM ITALIA MEDIA S.p.A.
MTV PUBBLICITA' S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
TELECOM ITALIA MEDIA BROADCASTING S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	15,000,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A. (development and sale of products in the field of the publishing industry, gathering and sale of advertising, management of all activities concerning the treatment and handling of information)	ROME (ITALY)	EUR	212,188,324	75.1714 2.2471	75.4553  2.2557	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
<b>OLIVETTI BUSINESS UNIT</b>						
ADVALSO S.p.A. (planning, production and servicing of telecommunication services and product)	IVREA (TURIN— ITALY)	EUR	500,000	100.0000		OLIVETTI S.p.A.
ADVANCED CARING CENTER S.r.l. (telemarketing's activities and development, market research and surveys)	ROME  (ITALY)	EUR	10,000	100.0000		ADVALSO S.p.A.
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and holding company)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI S.p.A.
OLIVETTI ENGINEERING S.A.  (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.p.A.
OLIVETTI ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9912		OLIVETTI S.p.A.
OLIVETTI FRANCE S.A. (sale of office equipment and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI S.p.A.



Consolidated Financial Statements			Notes To Consolidated Financial Statements			
Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
OLIVETTI I-JET S.p.A. (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA— ITALY)	EUR	15,000,000	100.0000		OLIVETTI S.p.A.
OLIVETTI S.p.A. (manufacture and sale of products and accessories for office equipment)	IVREA (TURIN— ITALY)	EUR	43,000,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI UK Ltd. (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI S.p.A.
TIESSE S.c.p.A. (installation and assistance for electronic, computer, telematic and telecommunications equipment)	ROME (ITALY)	EUR	103,292	61.0000		OLIVETTI S.p.A.
<b>OTHER OPERATIONS</b>						
EMSA Servizi S.p.A. (in liquidation) (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN— ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.r.l. (real estate services)	IVREA (TURIN— ITALY)	EUR	100,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (finance company)	AMSTERDAM (THE NETHERLANDS)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
PURPLE TULIP B.V. (holding company)	AMSTERDAM (THE NETHERLANDS)	EUR	18,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
SAIAT SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A. (finance company)	TURIN (ITALY)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (finance company)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA FINANCE IRELAND LTD (finance company)	DUBLIN (IRELAND)	EUR	1,360,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (finance company)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (THE NETHERLANDS)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.

Consolidated Financial Statements				Notes To Consolidated Financial Statements		
Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
TELECOM ITALIA LATAM PARTICIPACOES E GESTAO ADMINISTRATIVA LTDA (telecommunications promotional services)	SAO PAULO (BRAZIL)	BRL	118,925,804	100.0000		TELECOM ITALIA S.p.A.
TIAUDIT COMPLIANCE LATAM S.A. (internal auditing)	RIO DE JANEIRO (BRAZIL)	BRL	1,500,000	69.9996 30.0002		TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES—SCARL TIM BRASIL SERVICOS E PARTICIPACOES S.A.
INVERSIONES MILANO S.A.—TIERRA ARGENTEA S.A. (Investments holding company)	BUENOS AIRES (ARGENTINA)	ARS	261,213,255	90.0000 10.0000		TELECOM ITALIA INTERNATIONAL N.V. TELECOM ITALIA S.p.A.
<b>Associated and joint ventures accounted for using the equity method</b>						
AREE URBANE S.r.l. (in liquidation) (real estate)	MILAN (ITALY)	EUR	100,000	31.6500 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
BALTEA S.r.l. (in bankruptcy) (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN—ITALY)	EUR	100,000	49.0000		OLIVETTI S.p.A.
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (in liquidation) (professional training)	NAPLES (ITALY)	EUR	127,500	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	15,482	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO INITALIA (research, study, design, product development and ITC solutions devoted to initiatives characterized by a great economic relevance or by an innovative and complex natura)	ROME (ITALY)	EUR	200,000	25.0000		OLIVETTI S.p.A.
CONSORZIO TEMA MOBILITY (marketing and development of the products jointly realized by Telecom Italia and Magneti Marelli)	TURIN (ITALY)	EUR	850,000	50.0000		TELECOM ITALIA S.p.A.
CRIAI S.c.r.l.-CONS. CAMPANO DI RICERCA PER L'INFORMATICA E L'AUTOMAZIONE INDUSTRIALE (delivery of services in the IT and industrial automation fields)	NAPLES (ITALY)	EUR	198,255	47.9300		TELECOM ITALIA S.p.A.
IM.SER S.p.A. (real estate management)	MILAN (ITALY)	EUR	21,165	40.0000		TELECOM ITALIA S.p.A.
ITALTEL GROUP S.p.A. (holding company)	MILAN (ITALY)	EUR	131,426,652	34.6845		TELECOM ITALIA FINANCE S.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA FINANCE SA
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
TELELEASING—LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A.	MILAN	EUR	9,500,000	20.0000		SAIAT SOCIETA' ATTIVITA'INTERMEDIE AUSILIARIE TLC P.A.

Consolidated Financial Statements	Notes To Consolidated Financial Statements
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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
(financial leasing of real estate and other assets)	(ITALY)					
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (real estate management)	MILAN (ITALY)	EUR	10,000	49.4700		TELECOM ITALIA S.p.A.
TM NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	1,120,000	40.0000		TELECOM ITALIA MEDIA S.p.A.

### Other significant investments

CEFRIEL S.r.l. (professional training)	MILAN (ITALY)	EUR	100,350	11.6000		TELECOM ITALIA S.p.A.
CELL-TEL S.p.A. (telecommunications equipment, plant and systems)	SCARMAGNO (TURIN—ITALY)	EUR	500,000	15.0000		OLIVETTI S.p.A.
DAHLIA TV S.p.A. (in liquidation) (pay per view services)	ROME (ITALY)	EUR	11,318,833	10.0800		TELECOM ITALIA MEDIA S.p.A.
FIN.PRIV. S.r.l. (finance company)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA FINANCE S.A.
ITALBIZ.COM Inc. (Internet services)	DELAWARE (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
MIX S.r.l. (internet services provider)	MILAN (ITALY)	EUR	99,000	10.8500		TELECOM ITALIA S.p.A.
NEW SATELLITE RADIO S.r.l. (production and realization of radio-tv channel and program)	MILAN (ITALY)	EUR	10,000	12.7200		TELECOM ITALIA S.p.A.
PIEDMONT INTERNATIONAL S.A. (in liquidation) (finance company)	LUXEMBOURG  (LUXEMBOURG)	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.

Consolidated Financial Statements	Report Of Other Independent Registered Public Accounting Firm
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## REPORT OF OTHER INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telecom Italia S.p.A.

We have audited the accompanying consolidated statements of income, comprehensive income, changes in equity, and cash flows of Telecom Italia S.p.A. and subsidiaries for the year ended December 31, 2009. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Telecom Italia S.p.A. and subsidiaries referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows for the year ended December 31, 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

/s/ Reconta Ernst & Young S.p.A.

Milan, Italy  
April 11, 2011

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## BYLAWS

August 2011

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Amended by the Board of Directors on 7 July 2011, as per notarial deed n. 7975/4136 by Mr. Carlo Marchetti Public Notary in Milan.

**NAME - REGISTERED OFFICE - PURPOSE AND DURATION OF THE COMPANY****Article 1**

1.1 - The name of the Company shall be "TELECOM ITALIA S.p.A."

**Article 2**

2.1 - The registered office of the Company shall be in Milan.

**Article 3**

3.1 - The Company's purpose shall be:

- the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including radio stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing, operating and marketing, without territorial restrictions, communications services, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance, integration and marketing of telecommunications, information technology and electronic products, services, networks and systems and, in general, ICT (Information Communication Technology) solutions for final users;
- the performance of related and instrumental activities, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;
- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto;
- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

3.2 - Activities reserved to persons entered in a professional register and activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993 shall be expressly excluded.

**Article 4**

4.1 - The duration of the Company shall be until 31 December 2100. Extension of the time limit shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.

## SHARE CAPITAL – SHARES – BONDS

### Article 5

5.1 - The subscribed and fully paid-up share capital shall be equal to Euro 10,693,628,019.25, divided into 13,416,839,374 ordinary shares with a par value of Euro 0.55 each and 6,026,120,661 savings shares with a par value of Euro 0.55 each.

5.2 - In resolutions to increase the share capital by issuing shares for cash, the right of pre-emption may be excluded for up to a maximum of ten per cent of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the firm appointed as statutory auditor.

5.3 - The allotment of profits to employees of the Company or subsidiaries shall be allowed, in the legal terms and manner, by means of the issuance of shares pursuant to paragraph one of Art. 2349 of the Civil Code.

5.4 - For five years starting from 29 April 2010 the Directors may increase the share capital as follows:

- to service the implementation of the "2010-2015 Long-Term Incentive Plan," (i) by the issuance for cash of new ordinary shares with a par value of Euro 0.55 each, ranking *pari passu*, in the maximum amount of Euro 5,000,000, excluding the right of pre-emption pursuant to Art. 2441, paragraph 8, of the Civil Code, and Art. 134, paragraph 2, of Legislative Decree no. 58/1998, to be reserved for the respective beneficiaries, and therefore subsequently (ii) in the maximum amount of Euro 5,000,000 by the allotment of the corresponding maximum amount of profits pursuant to Art. 2349 of the Civil Code, by the issuance of the number of ordinary shares with a par value of Euro 0.55 each necessary for the allotment of one bonus share for every share subscribed for cash as described above by employee beneficiaries of the "2010-2015 Long-Term Incentive Plan," within the time periods and under the terms and conditions provided for therein.

With respect to the capital increase for cash, the Board of Directors shall set subscription price (including any premium) in accordance with the "2010-2015 Long-Term Incentive Plan," respectively, and it shall also set suitable time limits for its subscription, providing that if the increase resolved is not fully subscribed within that time limits, the capital will be increased by an amount equal to the subscriptions received up to such time.

5.5 - For five years starting from 12 April 2011 the Directors may increase the share capital to service the "Long Term Incentive Plan 2011" as follows, as approved by the Company Shareholders' Meeting of that date:

- (i) for cash, by the issue of new ordinary shares of Euro 0.55 par value each, with regular dividend entitlement, up to a maximum amount of Euro 5,000,000, excluding the right of pre-emption pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the "Long Term Incentive Plan 2011" as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of Euro 5,000,000 by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the "Long Term Incentive Plan 2011".
- up to a maximum amount of Euro 5,500,000 by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, with the issue of ordinary shares reserved to some of the



employees who are beneficiaries of the “Long Term Incentive Plan 2011” as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the “Long Term Incentive Plan 2011”.

Regarding the increase in capital for cash, the Board of Directors shall establish the share issue price (inclusive of the share premium) in accordance with the provisions of the “Long Term Incentive Plan 2011”, and shall also set the period of time within which they may be subscribed, providing that, if the resolved increase should not be fully subscribed within said period of time, the share capital shall be understood to have been increased by an amount equal to the subscriptions received up until that date.

5.6 - For five years starting from 8 April 2009 the Directors may increase the share capital in one or more tranches by up to a maximum total amount of €880,000,000 by means of cash issues, with or without a share premium, of up to a maximum of 1,600,000,000 ordinary shares with a par value of €0.55 each

- (i) to be offered with the right of pre-emption to persons having entitlement; or, including just a part thereof,
- (ii) to employees of Telecom Italia S.p.A. and its subsidiaries with the exclusion of the right of pre-emption pursuant to the combined effects of the last paragraph of Article 2441 of the Civil Code and Article 134(2) of Legislative Decree 58/1998.

5.7 - Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.

5.8 - The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from 8 April 2009, bonds convertible into ordinary shares to be offered with the right of pre-emption to persons having entitlement up to a maximum nominal amount of €1 billion.

## **Article 6**

6.1 - Savings shares shall have the preferential rights set forth in this Article.

6.2 - The net profit shown in the duly approved annual accounts, less the amount to be allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.

6.3 - The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.

6.4 - When the dividend paid on savings share in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years.

6.5 - In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second

paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph.

6.6 - A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares.

6.7 - Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value.

6.8 - If the Company's ordinary or savings shares are delisted, holders of savings shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an ad hoc Extraordinary Shareholders' Meeting called within two months of the delisting.

6.9 - The organization of savings shareholders shall be governed by law and these bylaws. The costs associated with organizing special meetings of savings shareholders and remunerating the common representative shall be borne by the Company.

## Article 7

7.1 - The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa.

7.2 - Vis-à-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders' Register.

7.3 - The imposition or removal of restrictions on the circulation of shares shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.

## Article 8

8.1 - The Company may issue bonds and shall establish the terms and conditions of their placement.

8.2 - The costs associated with organizing meetings of bondholders shall be borne by the Company, which, in the absence of a bondholder resolution in the form prescribed by law, shall also bear the cost of the common representatives up to the maximum amount set by the Board of Directors for each issue, taking account of its size.

## BOARD OF DIRECTORS

## Article 9

9.1 - The Company shall be managed by a Board of Directors consisting of not less than seven and not more than nineteen members. The Shareholders' Meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until a different number is established.

9.2 - The Board of Directors shall be appointed, in accordance with the applicable laws and regulations, on the basis of slates presented by the shareholders or by the outgoing Board of Directors.

9.3 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

9.4 - Slates may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations) of the share capital entitled to vote at the Ordinary Shareholders' Meeting.

9.5 - Together with each slate, it is necessary to file individual candidates' acceptances of their candidacy and declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question as well as any other piece of information requested by applicable law or regulation or the bylaws. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication of the positions held in management and control bodies of other companies and of the grounds for their qualifying as independent in accordance with the criteria established by law and the Company. Any changes that occur up to the day the Shareholders' Meeting is held must be promptly notified to the Company.

9.6 - Each person entitled to vote may vote for only one slate.

9.7 - The Board of Directors shall be elected as specified below:

- a) four fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes (the Majority List), in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number;
- b) without prejudice to compliance with the applicable laws and regulations concerning the limits to the link with the Majority List the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided successively by whole numbers from one up to the number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected.

If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.

9.8 - In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

9.9 - If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed.

9.10 - Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board of Directors has been reconstituted by persons appointed by the Shareholders' Meeting.

## Article 10

10.1 - The Board of Directors shall elect a Chairman from among its member — if the Shareholders' Meeting has not already done so — and may also appoint one or more Deputy Chairmen.

10.2 - If the Chairman is absent or unable to act, the senior Deputy Chairman by age, if appointed, shall take his/her place or, in the absence of a Deputy Chairman, the most senior director by age.

10.3 - The Board of Directors may elect a Secretary who need not be a director.

## Article 11

11.1 - The Chairman or his/her substitute shall call meetings of the Board of Directors at the Company's registered office or elsewhere, on his/her own initiative and whenever he/she receives a written request to do so from at least one fifth of the directors holding office or from the members of the Board of Auditors. The Chairman shall give advance notice of the matters to be discussed in Board meetings and arrange for adequate information on the questions to be examined to be provided to all the Directors, taking account of the circumstances of each case.

11.2 - Meetings shall be called, using suitable means in relation to the notice to be given, normally at least five days prior to the date thereof, except in urgent cases, when at least twelve hours' notice must in any case be given.

11.3 - Notice shall be given to the Board of Auditors within the same time limits.

11.4 - Participation in Board meetings may – if the Chairman or his/her substitute verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.

## Article 12

12.1 - The Board of Directors shall be responsible for running the Company, since all matters not expressly reserved to the Shareholders' Meeting by law or these bylaws are within its jurisdiction.

12.2 - Within the limits established by law, the Board of Directors shall be entrusted with deciding on the merger into Telecom Italia and the spin-off in favour of Telecom Italia of companies of which Telecom Italia owns at least 90% of the shares or capital parts, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the bylaws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of secondary offices.

## Article 13

13.1 - To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may:

- create an Executive Committee, establishing its powers and the number of members;
- delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer;
- appoint one or more General Managers, establishing their powers and duties;
- appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time.

13.2 - The Board of Directors may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties.

13.3 - The Board of Directors shall appoint the manager responsible for preparing the Company's financial reports after consulting the Board of Auditors. Unless revoked for good cause after consulting the Board of Auditors, the appointment shall terminate together with that of the Board of Directors that made it.

13.4 - The manager responsible for preparing the Company's financial reports must be an expert in the fields of administration, finance and control and satisfy the integrity requirements established for directors. Subsequent failure to satisfy these requirements shall entail disqualification from the position, which must be announced by the Board of Directors within thirty days of its learning of the failure.

#### **Article 14**

14.1 - Persons with delegated powers shall report to the Board of Directors and the Board of Auditors on the activities carried out, the general results of operations and their foreseeable development, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries; in particular, they shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the person, if any, who performs the activity of direction and coordination. Such reports shall be made promptly, and at least once in each quarter, in meetings or in writing.

14.2 - In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated to that end of any corporate events that might affect the price of the shares of that class.

#### **Article 15**

15.1 - The representation of the Company vis-à-vis third parties and in legal proceedings shall pertain to the Chairman or if he/she is absent or unable to act, the Deputy Chairman, if one is appointed; it shall also pertain severally to each of the Chief Executive Officers.

15.2 - The legal representatives mentioned in the previous subsection have the right to confer powers of representation of the Company, including in legal proceedings, with the right to issue sub-proxies.

#### **Article 16**

16.1 - The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders' Meeting shall also decide the annual remuneration payable to the Board of Directors. Once fixed, this remuneration shall remain unchanged until a different amount is established.

### **BOARD OF AUDITORS**

#### **Article 17**

17.1 - The Board of Auditors shall consist of five standing auditors. The Shareholders' Meeting shall also appoint four alternates.

17.2 - For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.

17.3 - The appointment of the Board of Auditors shall be in compliance with the applicable laws and regulations on the basis of slates presented by shareholders.

17.4 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

17.5 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations for the appointment of the Board of Directors) of the voting share capital, may submit slates.

17.6 - Together with each slate, it is necessary to file individual candidates' acceptances of their candidacy and declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements as well as any other piece of information requested by applicable law or regulation or the bylaws

17.7 - Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data with an indication of the positions held in management and control bodies of other companies. Any changes that occur up to the day the Shareholders' Meeting is held must be notified to the Company.

17.8 - The slates shall be divided into two sections: one for candidates to the position of standing auditor and the other for candidates to the position of alternate auditor. The first candidate in each section shall be selected from among the statutory auditors entered in the appropriate register who have worked on statutory audits for a period of not less than three years.

17.9 - Each person entitled to vote may vote for only one slate.

17.10 - The Board of Auditors shall be elected as specified below:

- a) from the slate that obtains the majority of the votes (the Majority Slate) three standing and two alternate auditors shall be chosen in the order in which they are listed on the slate;
- b) without prejudice to the applicable laws and regulations concerning the limits to link with the Majority Slate two standing and two alternate auditors shall be chosen from the other slates (the Minority Slates);

to this end the votes obtained by the Minority Slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate of the one and the other section of each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged respectively in a single decreasing ranking for the appointment of the standing auditors and a single decreasing ranking for the appointment of the alternate auditors and those who have obtained the two highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the candidate who obtains the simple majority of the votes shall be elected.

17.11 - The Shareholders' Meeting shall appoint the Chairman of the Board of Auditors from among the auditors elected from Minority Slates.

17.12 - In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

17.13 - In the event of the termination of the appointment of auditors chosen from the Majority Slate or from one of the Minority Slates, alternate auditors chosen respectively from the Majority Slate or the Minority Slates shall take their place in declining order of age. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be approved by the Shareholders' Meeting with the affirmative vote of the absolute majority of those voting and in compliance with the principle of the necessary representation of the minority shareholders. In the event of the termination of the appointment of an auditor chosen from the Minority Slates the principle of the necessary representation of the minority shareholders shall be deemed to be complied with in the event of the appointment of an alternate auditor chosen from the Minority Slates.

17.14 - After notifying the Chairman of the Board of Directors, the Board of Auditors, may call, as provided for by law, a Shareholders' Meeting or a meeting of the Board of Directors or the Executive Committee. This power to call meetings may be exercised individually by each auditor, except for the power to call a Shareholders' Meeting, which must be exercised by at least two auditors.

17.15 - Participation in the meetings of the Board of Auditors may – if the Chairman verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.

17.16 - If the Chairman is absent or unable to act, the other standing auditor elected from the Minority Slates shall take his/her place.

#### **SHAREHOLDERS' MEETING**

##### **Article 18**

18.1 - A Shareholders' Meeting shall be called whenever it is deemed desirable by the Board of Directors and when it is required in accordance with the law. If the quorum is not reached at the second call, there may be a third call. It is, moreover, the right of the Board of Directors to call an ordinary or extraordinary Shareholders' Meeting in a single call, as provided by law.

18.2 - An ordinary shareholders' meeting must be called at least once a year, no later than 180 days after the end of the company financial year. It shall resolve on the matters specified by law and authorise the execution of transactions with parties related to the Company, in those cases and by those methods provided in the pertinent procedure adopted by the Board of Directors pursuant to current law.

18.3 - Special meetings of savings shareholders shall be called by the common representative of the savings shareholders or by the Company's Board of Directors whenever they deem this to be desirable or when requested in accordance with the law.

18.4 - Ordinary and Extraordinary Shareholders' Meetings and special meetings of savings shareholders may be held in a place other than the registered office, provided it is in Italy.

##### **Article 19**

19.1 - In accordance with the current regulations, those entitled to vote in the Ordinary Shareholders' Meeting may exercise their right before the Shareholders' Meeting by mail or, if specified in the call notice and in the ways specified therein, electronically.

19.2 - Every person entitled to vote may be represented at the Shareholders' Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law. The company has the right to designate, for each shareholders' meeting, one or more persons on whom those entitled to vote may confer a proxy, pursuant to current law. Any persons so designated, and the necessary operating instructions, shall be stated in the notice calling the meeting.

19.3 - Electronic notification of the proxy may be carried out by using the specific section of the Company internet site or by electronic mail, following the procedures indicated in the notice calling the Shareholders' Meeting.

19.4 - In order to facilitate the expression of voting among employees of the Company or its subsidiaries who hold ordinary shares of the Company and belong to shareholder associations satisfying the requirements established by law, special areas shall be made available to those associations requesting them in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided.

## Article 20

20.1 - The Chairman of the Board of Directors or his/her substitute shall chair Ordinary and Extraordinary Shareholders' Meeting and govern its proceedings; the same function shall be performed by the common representative in special meetings of savings shareholders. In the absence respectively of the Chairman of the Board of Directors (and his/her substitute) and of the common representative, the meeting shall be chaired by the person elected with the favourable vote of the majority of the capital represented at the meeting.

20.2 - The Chairman of the meeting shall, amongst other things, verify its regularity, ascertain the identity and right to attend of those present, direct the business, including by establishing a different order for the discussion of the items indicated in the notice convening the meeting. The Chairman shall take appropriate measures to ensure the orderly conduct of the discussion and polls; he shall establish how each poll is to be conducted and verify the results; he may choose two or more scrutineers from among those present.

20.3 - The Secretary shall be appointed with the favourable vote of the majority of the capital represented at the meeting and a person who is not a shareholder may be selected.

20.4 - Shareholders' meetings shall be governed by the law, these bylaws and, exclusively for Ordinary and Extraordinary Shareholders' Meetings, the Rules of Proceeding approved by the Ordinary Shareholders' Meeting.

## FISCAL YEAR – DIVIDENDS

### Article 21

21.1 - The fiscal year shall end on December 31 of each year.

21.2 - From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

21.3 - The remainder shall be used to pay the dividend determined by the Shareholders' Meeting, and for such other purposes as the Shareholders' Meeting deems most appropriate or necessary.

21.4 - During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.



**SPECIAL POWERS****Article 22**

22.1 - Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, as replaced by Article 4(227) of Law 350/2003, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

- a) to oppose the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote in ordinary shareholder's meetings. The objection must be made within ten days of the date of the communication that the directors must send at the time of the application for entry in the shareholders' register if the Minister deems that the transaction is prejudicial to the vital interests of the state. During the interval for the exercise of the right of objection the voting rights and any rights other than the property rights attaching to the shares that represent the major holding shall be suspended. In the event of the exercise of the right of objection, by means of a measure giving the reasons in relation to the actual prejudice caused by the transaction to the vital interests of the state, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding and must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares representing the major holding pursuant to the procedures established in Article 2359-ter of the Civil Code. The objection may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court;
- b) to veto, giving the reasons in relation to the actual prejudice caused to the vital interests of the state, the adoption of resolutions to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in this article. The veto may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court.

22.2 - The right of objection referred to in subparagraph a) may be exercised with reference to the cases specified in Article 4(228) of Law 350/2003. The special powers referred to in subparagraphs a) and b) shall be exercised in conformity with the criteria established by the decree issued by the President of the Council of Ministers on 10 June 2004.

**TELECOM ITALIA S.p.A.  
LONG TERM INCENTIVE PLAN 2011**

**RULES**

In implementation of the resolutions made on 12 April 2011 by the Shareholders' Meeting of Telecom Italia S.p.A. (with registered office in Milan, at 2 Piazza degli Affari, tax code and registration number in the Milan Company Register 00488410010, also referred to as "Telecom Italia", the "Company" and the "Issuer") these rules (the "Rules") have been drawn up for the "Long Term Incentive Plan 2011" (the "Plan").

The Plan consists of the attribution to its Beneficiaries of a Bonus that varies depending on the level of their achievement of the 2011-2013 Performance Objectives. The Bonus (quantified in the Letter of Attribution) is structured differently for the different categories of Beneficiaries: Selected Executives, Top Management or Senior Executives.

**DEFINITIONS**

The definitions contained in the Plan Information Document published on 10 March 2011 pursuant to article 84-bis of the Issuer Regulations are understood to be an integral part of these Rules.

- Beneficiary/Beneficiaries – the beneficiaries of the Plan identified from persons in the following categories:
  - Selected Executives – the executives with an employment contract with Telecom Italia or other companies that it directly or indirectly controls who are beneficiaries of the Plan, selected according to their position within the organisation and/or their strategic potential.
  - Top Management – the human resources occupying positions of strategic importance in the Telecom Italia business organisation, employees with management contracts or collaborators of Telecom Italia or other companies that it directly or indirectly controls.
  - Senior Executives – the Chairman and Chief Executive Officer of Telecom Italia, appointed by the Board of Directors on 13 April 2011.
- Bonus – the benefit (in cash and/or in equity) promised to the individual Beneficiaries, determined on the measures based on their Letter of Attribution, and effectively quantified depending on the level of their achievement of the Performance Objectives in the Incentive Period. The Bonus consists of:
  - for Selected Executives, a cash bonus, with the possibility of (i) investment of 50% of the accrued sum in newly issued Shares to be subscribed at Market Price determined at the moment achievement of the Performance Objectives is ascertained, rounding fractions to whole numbers of Shares, and (ii) allocation of Matching Shares free of charge, on termination of the Second Period;
  - for Top Management, (i) a cash bonus, and (ii) non-transferable rights to a free allocation of shares at the end of the Second Period, for a sum equal to the cash component, based on the Market Price determined at the moment achievement of the Performance Objectives is ascertained, rounding fractions to whole numbers of Shares;
  - for Senior Executives, (i) a cash bonus, and (ii) a free allocation of Shares, for a sum equal to the cash component, based on the Market Price determined at the moment the Plan was launched, rounding fractions to whole numbers of Shares;
- Performance Objectives – the Total Shareholders Return for Telecom Italia and the cumulative Free Cash Flow in the three year period 2011-2013, level of achievement of which is correlated with payment of the Bonus.
- Incentive Period – the period of time from 1 January 2011 to 31 December 2013, for which the degree of achievement of the Performance Objectives will be ascertained.
- Second Period – the period of twenty four months from the date of the meeting at which the Board of Directors of the Issuer ascertains the level of achievement of the Performance Objectives.
- Letter of Attribution – the communication identifying the individual Beneficiary, quantifying the basic measure of the Bonus promised if the specified conditions should be met. The content of the Letter of Attribution, the objectives sheet and these Rules must be formally accepted by the Beneficiary.

- Market Price – the greater of (i) the par value of the Share and (ii) the arithmetic mean of the official price of the Shares in the 30 days preceding the reference moment on the MTA Electronic Share Market organised and operated by Borsa Italiana S.p.A.

## **1. GENERAL DESCRIPTION OF THE PLAN**

- 1.1 Participation in the Plan consists of the promise of a Bonus, as indicated in the Letter of Attribution.
- 1.2 The actual amount of the Bonus varies according to the level of achievement of the Performance Objectives in the Incentive Period, as ascertained by the Board of Directors of the Issuers in the meeting to approve the consolidated financial statements as at 31 December 2013 (First Phase of the Plan, identical for all Beneficiaries).
- 1.3 Following the quantification of the Bonus and payment of the cash component, there is a Second Period (Second Phase of the Plan, configured differently according to the category to which the Beneficiary belongs).

## **2. FIRST PHASE OF THE PLAN**

### **2.1 Performance Objectives**

- 2.1.1 The Performance Objectives are detailed in the objectives sheet that accompanies the Letter of Attribution. The Company reserves the right to proceed to (i) have the parameters used to measure the Performance Objectives updated by the Board of Directors (or its delegated representative), if they should become obsolescent during the Incentive Period, and to (ii) make adjustments during the final ascertainment of the level of achievement of the Performance Objectives, as specified in greater detail in the following point.
- 2.1.2 The level of achievement of the Performance Objectives will be ascertained by the Board of Directors during the meeting to approve the consolidated financial statements at 31 December 2013. Any adjustments to neutralise extraordinary phenomena may be proposed to the Board of Directors by the Nomination and Remuneration Committee (or any other Committee that is temporarily responsible for compensation issues).

### **2.2 Right to the Bonus**

- 2.2.1 The right to the Bonus accrues at the end of the Incentive Period, without prejudice to the subsequent ascertainment of the level of achievement of the Performance Objectives by the Board of Directors that approves the consolidated financial statements at 31 December 2013. Achievement of the Performance Objectives shall be individually communicated to the Beneficiaries in the terms laid down in point 4, below.
- 2.2.2 The right to the Bonus lapses if, during the Incentive Period:
  - (i) the Beneficiary no longer fulfils the criteria to belong to the category of beneficiaries into which he or she fell (including leaving the perimeter of the Group of companies/branch of the business in which the Beneficiary works);
  - (ii) in the case of a Beneficiary belonging to the Selected Executive or Top Management categories, their participation in the Plan is cancelled on an individual basis, determined unilaterally by the Board of Directors (or its delegated representative);
  - (iii) the Beneficiary should die.

Cancellation of the participation of an individual in the Plan shall be communicated to the Beneficiary in the terms laid down in point 4, below. With the cancellation of the participation of an individual in the Plan, the Beneficiary loses the right to receive the Bonus and any connected powers or rights.
- 2.2.3 Quantification of the Bonus, in its various configurations, and the disbursement of its cash component, will take place in the time necessary, following the ascertainment of the level of achievement of the Performance Objectives, without accruing any interest in the meantime.
- 2.2.4 The cash component of the Bonus will be paid in a single transaction, net of any tax or social security contributions payable by the Beneficiary in consideration of the applicable pro tempore tax regulations.

### **3. SECOND PHASE OF THE PLAN**

#### **3.1 Structure**

**3.1.1** The Second Phase will apply to the extent to which the First Phase has determined payment of a Bonus.

**3.1.2** The Second Phase of the Plan is optional for Beneficiaries in the Selected Executive category, and obligatory (but differently configured) for the remaining Beneficiaries.

#### **3.2 Selected Executives**

**3.2.1** Those Beneficiaries belonging to the Selected Executive category who are employees of Telecom Italia or other Group companies at the time the Bonus is paid, are entitled to invest 50% of the accrued cash Bonus in Shares issued in a specific increase in capital by payment reserved to the participants in the Plan, object of the mandate given to the Board of Directors of the Issuer pursuant to the resolution of the Shareholders' meeting of 12 April 2011, to be carried out by the issue of Shares for a total maximum value of 5,000,000 euros (including share premium), the subscription price of which is equal to the Market Price of the Share determined by the Board of Directors at the moment achievement of the Performance Objectives is ascertained (the "Reserved Increase in Capital").

**3.2.2** Beneficiaries in the Selected Executive category who intend to accept the offer to subscribe to the Reserved Increase in Capital, by investing 50% of their cash bonus, must submit an application to Telecom Italia accepting the offer in the terms and with the arrangements established in due course by the Board of Directors (or its delegated representative). Payment for the Shares thus subscribed will be made by deduction of the sum allocated for that purpose from the accrued Bonus.

**3.2.3** In the application for acceptance of the offer to subscribe the Reserved Increase in Capital (carried out within the necessary completion times) the Subscribers undertake that, while maintaining full enjoyment of their rights including the right to freely trade the Shares, the subscribed Shares assigned to them will be held on deposit with the Issuer, which will guarantee a free custody and administration service for two years from their date of allocation.

**3.2.4** Those Subscribers of the Increase in capital who have retained the Subscribed Shares with the Issuer for the whole Second Period, provided they have maintained their status as Employees of Group companies, will be allocated Matching Shares in a ratio of 1 Matching Share for every Share subscribed and maintained on deposit with the Issuer uninterruptedly throughout the period.

**3.2.5** The right to the allocation of Matching Shares lapses if, during the Second Period:

- (i) the employment of the Beneficiary with the Issuer or with other Group companies should cease;
- (ii) the Beneficiary should die.

**3.2.6** Matching Shares will be allocated after the time necessary to verify that the conditions for their allocation and to carry out the free increase in capital pursuant to article 2349 of the Italian civil code, delegated to the Board of Directors of the Issuer by the Shareholders' Meeting of 12 April 2011.

#### **3.3 Top Management**

**3.3.1** At the end of the Second Period, the Beneficiaries in the Top Management category who have maintained their employment/collaboration with Group companies will be allocated the Shares to which they are entitled free of charge, in the quantity determined when the level of their achievement of the Performance Objectives in the Incentive Period is determined.

**3.3.2** Rights to the free allocation of Shares lapse if the employment/collaboration of the Beneficiary with the Issuer or other Group companies is terminated after the Incentive Period.

- (i) by resignation or dismissal for just cause or justified subjective grounds;
- (ii) by exit from the perimeter of the company or business unit for which the Beneficiary works.

The same rights (are allocated and) are retained if, instead, the following events occur during the Second Period:

- (a) the retirement of the Beneficiary as a result of reaching the age limit,
- (b) the consensual termination of the employment relationship,
- (c) the death of the Beneficiary.

### **3.3.3 The right of free allocation will be satisfied**

- (i) to the Beneficiaries who are employed by the Issuer or another Group company at the end of the Second Period, by a specific free increase in capital pursuant to article 2349 of the Italian civil code, delegated to the Board of Directors of the Issuer by the Shareholders' Meeting of 12 April 2011. In this case the Shares will be allocated after the time necessary to verify the conditions for their allocation and to carry out the increase in capital;
- (ii) to the heirs of the Beneficiaries or the Beneficiaries who at the time are not employed by the Issuer or another Group company, by transfer of own Shares that the company holds, free of charge, or in the absence of such Shares, by the payment of an equivalent cash sum. In this case the transfer of shares or the payment of an equivalent cash sum will take place after the time necessary to check the conditions of access to the benefit, without accruing any interest in the meantime.

## **3.4 Senior Executives**

**3.4.1** The Shares allocated at the end of the Incentive Period to Beneficiaries in the Senior Executive category will be subject to a negotiated lock-up, with retention on deposit at the Issuer, which will guarantee the free custody and administration service.

**3.4.2** The lock-up undertaking is entered into the moment the Letter of Attribution is accepted. Beneficiaries who fall into the Senior Executive category undertake, in particular, to not proceed to make acts of disposition on the allocated Shares for the whole of the Second Period, while maintaining full enjoyment of the corresponding administrative and property rights.

## **4. GENERAL PROVISIONS**

### **4.1 National insurance and tax regime**

**4.1.1** The national insurance and tax contributions relating to the Bonus, in its cash and equity components, and to the Shares subscribed shall remain the respective responsibility of the Beneficiaries and/or the Company, for their respective competence, based on the applicable pro tempore regulations.

**4.1.2** Beneficiaries shall make available to the Issuer the provision for the application of withholding tax on the income that the Company might apply as Withholding Agent in consideration of the pro tempore fiscal regulations applicable, in the terms and with the arrangements that shall be established in due course by the Board of Directors (or its delegated representative).

**4.1.3** The national insurance and tax regime of Beneficiaries of the Plan who are resident abroad for tax purposes is that of the tax jurisdictions involved, without prejudice to any applicable international agreements on double taxation.

**4.1.4** The tax regime applicable to the successors and assigns of a Beneficiary is the regime of the succession *mortis causa*.

### **4.2 Changes to the Plan**

**4.2.1** Without prejudice to the provisions regarding individual cancellation and the updating of the performance parameters due to subsequent obsolescence and/or their ex-post adjustment to neutralise extraordinary events, the Board of Directors may make changes to the terms and conditions of the Plan, or wholly or partially cancel it, suspend it or terminate it if the applicable law should change or if extraordinary events should occur that might influence the Plan during the Incentive Period and/or the Second Period, promptly informing the Beneficiaries.

### **4.3 Communications**

**4.3.1** Communications to the Beneficiaries pursuant to these Rules shall be made in writing, by ordinary post or by electronic mail.

**4.3.2** Communications shall preferably be addressed to the workplace, or at the domicile indicated by the Beneficiaries. For this purpose, it is the responsibility of the Beneficiaries to promptly communicate any changes to their domicile or e-mail address to the offices of the Human Resources and Organization department.

### **4.4 Disputes**

**4.4.1** Any disputes arising, dependent or in any way connected to the Plan are devolved to the sole jurisdiction of the Milan judicial authorities.

## Statement explaining computation of ratio of "Earnings to fixed charges" under IFRS

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(millions of euros)				
<b>Earnings</b>					
Profit (loss) before tax from continuing operations .....	(2,624)	4,132	3,339	2,894	4,120
Fixed charges .....	2,098	2,189	2,177	2,361	2,432
Amortization of capitalized interest and issue debt discounts or premiums .....	—	—	—	—	—
Dividends from associates and joint ventures accounted for using the equity method .....	—	1	20	54	50
Share of losses of associates and joint ventures accounted for using the equity method .....	41	18	11	14	2
Capitalized interest for the applicable period .....	—	—	—	—	—
Share of earnings of associates and joint ventures accounted for using the equity method .....	(2)	(117)	(80)	(79)	(89)
<b>(A)</b>	<b>(487)</b>	<b>6,223</b>	<b>5,467</b>	<b>5,258</b>	<b>6,528</b>
<b>Fixed charges</b>					
Interest expenses (both expensed and capitalized) .....	2,053	2,145	2,129	2,333	2,416
Issue costs and any original issue debt discounts or premiums .....	—	—	7	7	7
Estimated interest within rental expense for operating leases ...	45	44	41	35	22
<b>(B)</b>	<b>2,098</b>	<b>2,189</b>	<b>2,177</b>	<b>2,375</b>	<b>2,445</b>
<b>Ratio of Earnings to fixed charges (A/B) .....</b>	<b>(0.23)(1)</b>	<b>2.84</b>	<b>2.51</b>	<b>2.21</b>	<b>2.67</b>

(1) Due to the loss in 2011, the ratio coverage was less than 1:1. The Company would have needed to generate additional earnings of 2,585 million euros to achieve a coverage of 1:1 in 2011.

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**Certification by the Executive Chairman of Telecom Italia S.p.A.**

I, Franco Bernabè, certify that:

1. I have reviewed this annual report on Form 20-F of Telecom Italia S.p.A.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial data and have identified for the company's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By:	/s/ FRANCO BERNABÈ
Name:	Franco Bernabè
Title:	Executive Chairman

May 14, 2012



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**Certification by the Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.**

I, Marco Patuano, certify that:

1. I have reviewed this annual report on Form 20-F of Telecom Italia S.p.A.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial data and have identified for the company's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By:                     /s/  MARCO PATUANO                      
 Name: **Marco Patuano**  
 Title: **Domestic Managing Director and Chief Operating Officer**

May 14, 2012

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1. I have reviewed this annual report on Form 20-F of Telecom Italia S.p.A.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial data and have identified for the company's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By: /s/ ANDREA MANGONI

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Name: Andrea Mangoni

Title: Head of Administration, Finance and Control and  
International Development

May 14, 2012

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## 906 CERTIFICATION

May 14, 2012

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Ladies and Gentlemen:

The certification set forth below is being submitted in connection with the Telecom Italia S.p.A. Annual Report on Form 20-F for the year ended December 31, 2011 (the "**Report**") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "**Exchange Act**") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Franco Bernabè, the Executive Chairman, Marco Patuano, the Domestic Managing Director and Chief Operating Officer and Andrea Mangoni, the Head of Administration, Finance and Control and International Development, of Telecom Italia S.p.A., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Telecom Italia S.p.A.

By:                     /s/                    FRANCO BERNABÈ                      
Name: **Franco Bernabè**  
Title: **Executive Chairman**

By:                     /s/                    MARCO PATUANO                      
Name: **Marco Patuano**  
Title: **Domestic Managing Director and Chief Operating Officer**

By:                     /s/                    ANDREA MANGONI                      
Name: **Andrea Mangoni**  
Title: **Head of Administration, Finance and Control and International Development**

