Interim Report at September 30, 2011

Contents

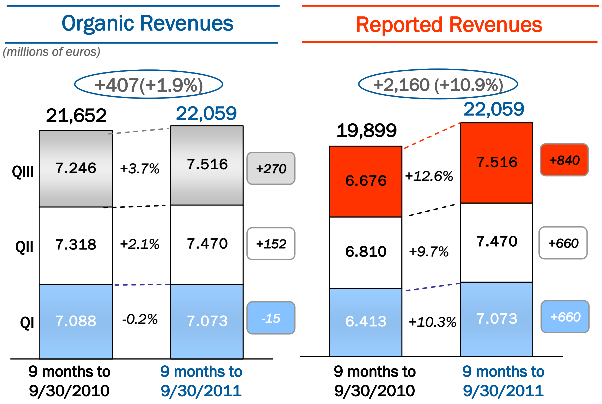
This document has been translated Into English solely for the convenience of the readers.
In the event of a discrepancy, the Italian-language version prevails.

Key Operating and Financial Data - Telecom Italia Group

►Highlights for the Nine Months and Third Quarter of 2011

- **Cash flows generated by the Group are confirmed as solid, thanks in part to the enormous commitment to improve efficiency, especially in the Domestic market. Operating free cash flow is 4,524 million euros for the first nine months of 2011, increasing 1,073 million euros compared with the corresponding period of the prior year. These results enable the Group to continue to reduce Adjusted Net Financial Debt which at September 30, 2011 is 1,520 million euros lower than at December 31, 2010 and more than 3 billion euros down from September 30, 2010.**
- **The Group continues its repositioning towards markets which offer better prospects for growth. Thanks to the consolidation of Argentina and the strong gains by Brazil, consolidated revenues are up 11% to 22 billion euros compared with the corresponding period of the previous year.**
- **At the end of the period, operations in South America, in organic terms, account for 35% of the Group's revenues and 18% of its operating free cash flow (EBITDA-Capex Expenditures).**
- **The Domestic market continues to feature a declining business trend due to the difficult macroeconomic situation and fierce competition in the market. Competitive repositioning begun last year and positive gains in mobile data services are nevertheless beginning to produce results: the contraction in revenues is slowing down and in the third quarter is almost half that of the first two quarters of 2011.**
- **A consolidated loss of 1.2 billion euros is reported for the first nine months of 2011 attributable to owners of the Parent and reflects the impact of the Goodwill impairment charge of 3.2 billion euros recognized on the basis of the impairment test carried out at June 30, 2011, which will be updated when drawing up the annual financial statements. This countered by a current operating trend that remains positive. In fact, excluding the negative impact of the Goodwill impairment charge, the profit for the period would have been about 2 billion euros, up 8.6% over the same period of the prior year.**
- **A consolidated profit of 807 million euros is reported for the third quarter of 2011 attributable to owners of the Parent, increasing 199 million euros compared with the same period of the prior year (+32.7%).**
- **On October 3, 2011, the Ministry for Economic Development-Communications Department, informed Telecom Italian that it had been awarded two blocks of frequencies at 800 MHz, a block of frequencies at 1800 MHz and three blocks of frequencies at 2600 MHz for a total price of 1.2 billion euros, which will have an impact for the same amount on net financial debt at the end of the year.**

The trend of the key operating and financial indicators for the first nine months and third quarter of 2011 can be summarized as follows:

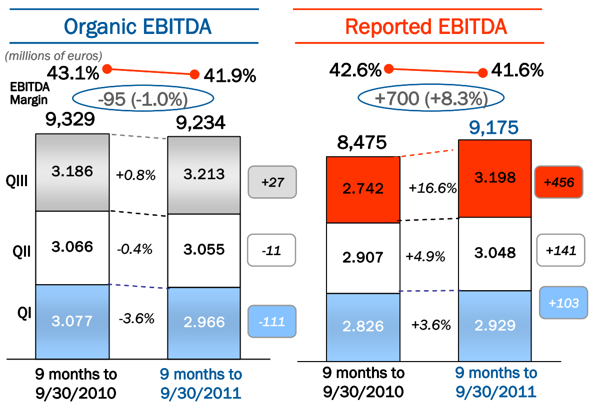


Consolidated Reported Revenues: amount to 22,059 million euros for the first nine months of 2011. This is an increase of 10.9% (+2,160 million euros) thanks to the revenues contributed by Latin America operations, which benefited from the entry of the Argentina Business Unit in the scope of consolidation, and the positive performance by the Brazil Business Unit. The change in consolidated **Organic Revenues**[1] for the first nine months of 2011 is +1.9%, displaying a trend of continuous improvement during the period; consolidated organic Revenues for the third quarter record an increase of 3.7% compared with the third quarter of 2010.

More to the point:

- the organic reduction in **Domestic** Business Unit **Revenues** for the first nine months of 2011 is 5.7% (-3.8% for the third quarter of 2011); as for performance by customer segment, the first nine months of 2011 register a reduction of 6.5% in the Consumer segment (-4.0% for the third quarter), a contraction of 6.9% for the first nine months of 2011 in the Business segment (-6.7% for the third quarter) and -4.9% for the first nine months of 2011 in the Top Clients segment (-4.2% for the third quarter).
- **Revenues in Brazil** show organic growth of 17.5% compared with the first nine months of 2010 (+804 million euros); for the third quarter, organic revenue growth is 18.9% (+301 million euros).
- **Revenues in Argentina** show organic growth of 27.4% compared with the first nine months of 2010 (1,824 million euros); in particular, Revenues of the Mobile business are up 33.6% while the Fixed-line area expands by 15.5% compared with the corresponding period of the prior year. For the third quarter, organic revenue growth is 26.7% (+172 million euros).

Consolidated Reported EBITDA: grows 700 million euros (from 8,475 million euros for the first nine months of 2010 to 9,175 million euros for the first nine months of 2011); a positive contribution is made to this result by the entry of the Argentina Business Unit in the scope of consolidation. For the third quarter of 2011, EBITDA records an increase of 16.6% (+456 million euros). The consolidated **Reported EBITDA margin** falls 1.0 percentage points to 41.6% for the first nine months of 2011 (42.6% for the first nine months of 2010).



[1] The organic change in Revenues, EBITDA and EBIT is calculated by excluding the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.

The consolidated **Organic EBITDA margin** is down 1.2 percentage points to 41.9% for the first nine months of 2011 (43.1% for the first nine months of 2010). Such performance is linked to the higher contribution to revenues by South America, where margins are lower than those of the Domestic Business, as well as the increase in sales of mobile handsets, aimed at a greater penetration of data services. In terms of the amount, organic EBITDA is 9,234 million euros (9,329 million euros for the same period of the prior year); for the third quarter of 2011, organic EBITDA is 3,213 million euros, a figure aligned with the 3,186 million euros for the third quarter of 2010.

Consolidated **Reported EBIT**: is a positive 1,847 million euros for the first nine months of 2011 (a positive 4,304 million euros for the first nine months of 2010) and is penalized by the impact of the impairment charge of 3,182 million euros on the Goodwill allocated to the Domestic business. For the third quarter of 2011, compared with the same period of the prior year, EBIT recorded an increase of 32.7% (+465 million euros) and also benefits from the positive effect of 35 million euros on the sale of the entire investment in Loquendo which took place on September 30, 2011.

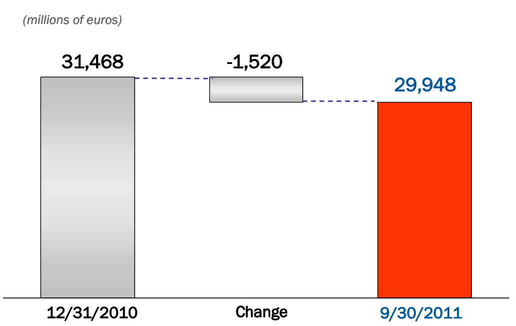
Consolidated **Organic EBIT**: amounts to 5,052 million euros for the first nine months of 2011 (+4.9% compared with the first nine months of 2010); for the third quarter of 2011, EBIT is 1,868 million euros (+6.4%). The consolidated **Organic EBIT margin** is 22.9%, gaining 0.7 percentage points compared with the corresponding period of the prior year (22.2%).

Finance income/expenses and Investment Results: show the finance component, investment management and the equity valuation of associates generating an improvement, particularly in relation to the reduction of 84 million euros in the balance of Finance income and expenses, mostly in connection with reduction in Net financial debt. The investment results, in particular, include the positive impact of 17 million euros from the January 31, 2011 sale of the entire investment held in EtecSA (Cuba), which is in addition to the benefit of the impairment reversal of 30 million euros, which had been recorded in 2010.

Loss for the period attributable to owners of the Parent: is 1,206 million euros, with a reduction of 3,025 million euros compared with the first nine months of 2010 (profit of 1,819 million euros). Excluding the impact of the Goodwill impairment charge, the profit for the period would have amounted to 1,976 million euros, or 157 million euros higher than the corresponding period of the prior year. For the third quarter of 2011, the profit for the period attributable to owners of the Parent is 807 million euros, with an increase of 199 million euros (+32.7%) compared with the same period of the preceding year.

Operating free cash flow: is 4,524 million euros for the first nine months of 2011, increasing 1,073 million euros over the corresponding period of last year (the increase would have been 684 million euros if the payment to the Revenue Agency relating to the Telecom Italia Sparkle case in the third quarter of 2010 is taken into account. This increase is a confirmation of the Group's growing ability to generate cash flows, thanks to the positive contribution of the Domestic and Brazil markets and also the entry of the Argentina Business Unit in the scope of consolidation.

Adjusted Net Fnancial Debt



Adjusted net financial debt: is 29,948 million euros at September 30, 2011, decreasing 1,520 million euros compared with December 31, 2010 (31,468 million euros). Cash generation from operating activities, together with the receipt of 398 million euros from the sale of the investment in EtecSA (Cuba), amply covered the payment of dividends (1,326 million euros, of which 1,183 million euros was paid to the market by the Parent), taxes of about 700 million euros and the purchase of shares which, in the first nine months of 2011, enabled the Telecom Italia Group to increase its economic interest in the Telecom Argentina group from 16.2% to 21.1%.

Adjusted net financial debt decreased by more than 3 billion euros compared with that of September 30, 2010 (32,985 million euros), attesting to the positive progress made towards deleveraging.

Liquidity margin: liquidity amounts to 5.2 billion euros at September 30, 2011. During the first nine months of 2011, two new bond issues were placed on the European market for a total of 1.75 billion euros while about 5 billion euros of debt was repaid or repurchased. There is also another 7.8 billion euros of liquidity in long-term irrevocable credit lines (mainly 6.5 billion euros expiring in 2014 and 1.25 billion euros expiring in 2013), not subject to events which limit utilization. In the present environment of financial market uncertainty, the Telecom Italia Group keeps a high level of financial coverage, optimizing, at the same time, the average cost of debt.

The Interim Report at September 30, 2011 of the Telecom Italia Group has been prepared as set out in 154-ter (Financial Reports) of Legislative Decree 58/1998 (Consolidated Law on Finance – TUF), and subsequent amendments and additions, as well as Consob Communication DEM/8041082 of April 30, 2008 (Quarterly Corporate Reports issued by Companies whose Shares are Listed in Italy as the Original Member State).
The Interim Report is unaudited and has been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS").
The accounting principles and consolidation principles adopted in the preparation of this Report have been applied on a basis consistent with those adopted in the Annual Consolidated Financial Statements at December 31, 2010, to which reference can be made, except for new standards and interpretations adopted by the Group beginning January 1, 2011 and described in the 2010 Annual Report. Such new standards and interpretations did not have any impact on the Interim Report at September 30, 2011.
It should be noted that the updating of the impairment test on the recoverability of the value of goodwill, carried out in drawing up the Half-year Financial Report at June 30, 2011, will be performed concurrently with the preparation of the 2011 annual financial statements, also on the basis of the flows anticipated from the new Business Plan 2012 – 2014, which will be approved shortly.
In particular, concerning internal factors, the trend of the Telecom Italia Group's ordinary operations for the third quarter of 2011 was in line with the targets announced to the market and used as the basis for the impairment test at June 30, 2011. As for external factors, owing to the situation of extreme uncertainty and volatility regarding the macroeconomic scenario and financial markets, it is believed that stock prices and other indicators from external sources do not constitute today a clear and significant indicator which might prompt the repetition of the impairment test.

The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA, EBIT, the organic change in revenues, EBITDA and EBIT, net financial debt carrying amount and adjusted net financial debt. Additional details on such measures are presented under "Alternative Performance Measures".
Furthermore, the part entitled "Business Outlook for the Year 2011" contains forward-looking statements in relation to the Group's intentions, beliefs or current expectations regarding financial performance and other aspects of the Group's operations and strategies. Readers of the Interim Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which is beyond the scope of the Group's control.

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

On July 27, 2011, the 4G Holding group entered the scope of consolidation in the Domestic Business Unit after the purchase of a 71% holding in the ordinary shares of 4G Holding S.p.A., which in turn has a 100% stake in 4G Retail S.r.l.. The acquisition of 4G Holding, with its roughly 200 points of sale in the most important Italian shopping centers, will make it possible for Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment, extending its reach throughout the territory.
On September 30, 2011, Loquendo S.p.A., included in the Domestic Business Unit, was sold and consequently exited the scope of consolidation.
On October 13, 2010, the Sofora – Telecom Argentina group entered the scope of consolidation following the increase, from 50% to 58%, of the stake held by the Telecom Italia Group in the share capital of Sofora Telecomunicaciones S.A., the controlling holding company of the Telecom Argentina group. In January and in March 2011, further shares were acquired which increased the economic interest in the Telecom Argentina group from 16.2% to 21.1%.
The data of the Sofora group are represented in the Telecom Italia Group in the new business unit denominated "Argentina Business Unit".

During 2010, the following companies exited the scope of consolidation: HanseNet Telekommunikation GmbH (a company operating in the broadband sector in Germany), already classified in Discontinued operations/Non-current assets held for sale, sold on February 16, 2010, Elettra (a company included in the Domestic Business Unit – International Wholesale), sold on September 30, 2010, and the BBNed group (included in Other Operations), sold on October 5, 2010.

Consolidated Operating and Financial Data (*)

(millions of euros)	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	Change (a/b) %
Revenues	7,516	6,676	22,059	19,899	10.9
EBITDA [1]	3,198	2,742	9,175	8,475	8.3
EBIT[1]	1,888	1,423	1,847	4,304	(57.1)
Profit before tax from continuing operations	1,376	879	377	2,803	n.s.
Profit (loss) from continuing operations	920	662	(860)	1,904	n.s.
Loss from Discontinued operations/Non-current assets held for sale	-	-	(11)	(2)	n.s.
Profit (loss) for the period	920	662	(871)	1,902	n.s.
Profit (loss) for the period attributable to owners of the Parent	807	608	(1,206)	1,819	n.s.
Capital expenditures	1,153	917	3,190	2,938	8.6

Consolidated Financial Position Data (*)

(millions of euros)	9/30/2011	12/31/2010	Change
Total assets	82,581	89,040	(6,459)
Total equity	29,818	32,555	(2,737)
- attributable to owners of the Parent	26,268	28,819	(2,551)
- attributable to non-controlling interests	3,550	3,736	(186)
Total liabilities	52,763	56,485	(3,722)
Total equity and liabilities	82,581	89,040	(6,459)
Share capital	10,604	10,600	4
Net financial debt carrying amount [1]	30,250	32,087	(1,837)
Adjusted net financial debt [1]	29,948	31,468	(1,520)
Adjusted net invested capital [2]	59,766	64,023	(4,257)
Debt Ratio (Adjusted net financial debt /Adjusted net invested capital)	50.1%	49.2%	0.9 pp

Consolidated Profit Ratios

	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	Change (a-b)
EBITDA[1]/Revenues	42.5%	41.1%	41.6%	42.6%	(1.0) pp
EBIT[1]/Revenues (ROS)	25.1%	21.3%	8.4%	21.6%	(13.2) pp

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

(number)	9/30/2011	12/31/2010	Change
Headcount	85,126	84,200	926

Headcount, average number in the Group (3)

(equivalent number)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Headcount	78,193	66,893	11,300

(1) Details are provided in the section "Alternative Performance Measures".
(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.
(3) Headcount includes the number of persons with temp work contracts.

(*) As set out by IFRS 3, during 2011 the definitive allocation of the price paid on October 13, 2010 for the acquisition of control of the Sofora – Telecom Argentina group was finalized. Consequently, the provisional amounts of assets (including goodwill) and liabilties of the Sofora – Telecom Argentina group recorded in the consolidated financial statements at December 31, 2010 were adjusted to reflect the definitive fair value of the assets and liabilities of the Sofora – Telecom Argentina group at the date of acquistion of the relative control. The changes are summarized in the following table:

Separate consolidated financial statements at December 31, 2010 of the Telecom Italia Group – Balances with changes

(millions of euros)	Definitive amounts	Provisional amounts	Change
Goodwill	43.923	43.912	11
of which Sofora – Telecom Argentina group goodwill	*177*	*166*	*11*
Other intangible assets	7.936	7.903	33
Tangible assets	16.415	16.550	(135)
Other non-current assets	4.788	4.788	-
Total Non-current assets	73.062	73.153	(91)
Total Current assets	15.978	15.978	-
Total Assets	**89.040**	**89.131**	**(91)**
Total Equity	32.555	32.610	(55)
of which Equity attributable to non-controlling interests	*3.736*	*3.791*	*(55)*
Total Non-current liabilities	38.414	38.450	(36)
Total Current liabilities	18.071	18.071	-
Total equity and liabilities	**89.040**	**89.131**	**(91)**

Review of Operating and Financial Performance - Telecom Italia Group

▸ Consolidated Operating Performance for the First Nine Months of 2011

The key operating indicators for the first nine months of 2011 compared with the corresponding period of 2010 are as follows:

(millions of euros)	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	Change (a-b) amount	%	% organic
Revenues	**22,059**	**19,899**	2,160	10.9	1.9
EBITDA	**9,175**	**8,475**	700	8.3	(1.0)
EBITDA margin	*41.6%*	*42.6%*	*(1.0)pp*		
Organic EBITDA margin	*41.9%*	*43.1%*	*(1.2)pp*		
Depreciation and amortization, Gains (losses) on disposals and Other impairment losses on non-current assets	(4,146)	(4,171)	25	0.6	
Core Domestic goodwill impairment charge	(3,182)	-	(3,182)		
EBIT	**1,847**	**4,304**	(2,457)	(57.1)	4.9
EBIT margin	*8.4%*	*21.6%*	*(13.2)pp*		
Organic EBIT margin	*22.9%*	*22.2%*	*0.7pp*		
Profit before tax from continuing operations	**377**	**2,803**	(2,426)	n.s.	
Profit (loss) from continuing operations	**(860)**	**1,904**	(2,764)	n.s.	
Loss from Discontinued operations/Non-current assets held for sale	(11)	(2)	(9)	n.s.	
Profit (loss) for the period	**(871)**	**1,902**	(2,773)	n.s.	
Profit (loss) for the period attributable to owners of the Parent	**(1,206)**	**1,819**	(3,025)	n.s.	

Revenues

Revenues amount to 22,059 million euros for the first nine months of 2011, increasing 10.9% compared with 19,899 million euros for the first nine months of 2010 (+2,160 million euros). In terms of the organic change, consolidated revenues increased 1.9% (+407 million euros).
In particular, the organic change in revenues is calculated by:

- considering the effect of the change in the scope of consolidation (+1,707 million euros, principally in reference to the consolidation of the Argentina Business Unit);
- considering the effect of exchange differences (+81 million euros, almost entirely due to the positive exchange rate effect of the Brazil Business Unit [1], equal to 93 million euros);
- excluding other non-organic revenues, equal to 35 million euros for the first nine months of 2010, relating to the termination, in the second quarter of 2010, of the "1001TIM" loyalty program which had resulted in the recognition of revenues from previously deferred award credits, as they had not been used by the customer.

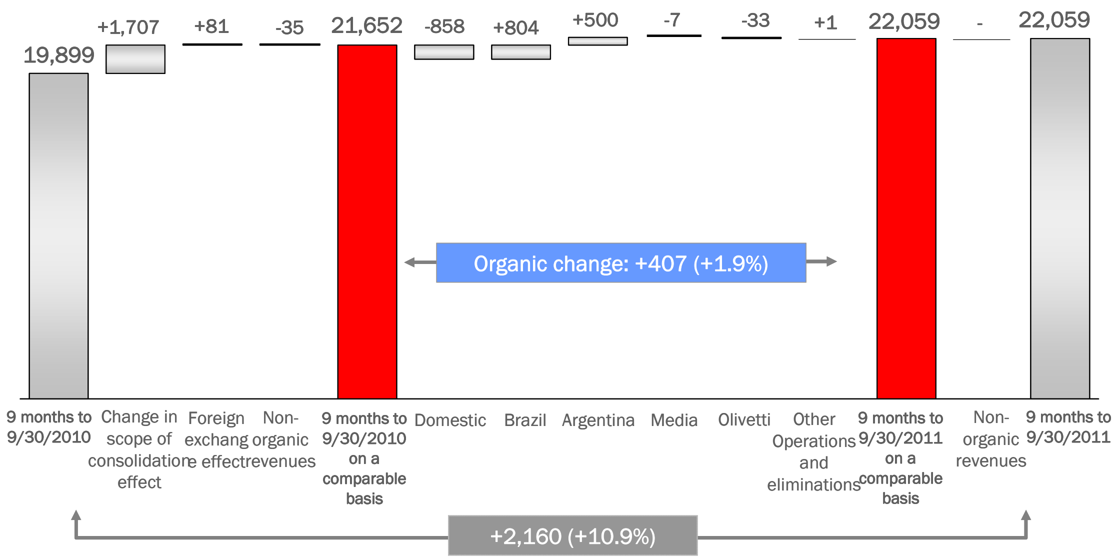
(1) The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), is equal to 2.29395 in the first nine months of 2011 and 2.34125 in the first nine months of 2010. The effect of the change in exchange rates is calculated by applying, to the period under comparison, the foreign currency translation rates used for the current period.

The breakdown of revenues by operating segment is the following:

(millions of euros)	9 months to 9/30/2011		9 months to 9/30/2010		Change		
		% of total		% of total	amount	%	% organic
Domestic	14,098	*63.9*	15,032	*75.5*	(934)	(6.2)	(5.7)
Core Domestic	*13,450*	*61.0*	*14,251*	*71.6*	*(801)*	*(5.6)*	*(5.4)*
International Wholesale	*1,011*	*4.6*	*1,207*	*6.1*	*(196)*	*(16.2)*	*(13.3)*
Brazil	5,395	*24.5*	4,498	*22.6*	897	19.9	17.5
Argentina	2,324	*10.5*	-	-	2,324	-	27.4
Media, Olivetti and Other Operations	398	*1.8*	500	*2.5*	(102)	(20.4)	(9.1)
Adjustments and Eliminations	*(156)*	*(0.7)*	*(131)*	*(0.6)*	(25)		
Total consolidated revenues	**22,059**	100.0	19,899	100.0	**2,160**	10.9	**1.9**

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

(millions of euros)



The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a declining trend in organic Revenues of 5.7% compared with the first nine months of 2010; the decrease in revenues is slowing down and, in the third quarter of 2011, is almost half that of the first two quarters (respectively: -3.8% in the third quarter, -6.0% in second and -7.4% in the first). This can also be ascribed to the results from the repositioning strategy undertaken in the mobile business, the positive change in data services in the mobile area and the protection of the value of the fixed customer base.
The organic services component (13,572 million euros for the first nine months of 2011) records a contraction of 5.9% and confirms the improving trend over the prior year (-7.6% in the first quarter of 2011, -6.2% in the second quarter of 2011 and -3.7% in the third quarter of 2011). Such improvement is driven by the mobile area (-9.3% for the first nine months of 2011, -7.5% in the third quarter of 2011), where the efforts to competitively reposition TIM’s rate plans are still being felt, but to a lesser degree.
The fixed-line area, with a contraction in revenues of 435 million euros (-4.2% for the first nine months of 2011) displays a considerable improvement in the third quarter of 2011 (-2.8% compared with the same period of the prior year). In particular, Revenues from Retail customers confirm the contraction compared with the corresponding period of the prior year (-5.4%) but show an improvement during the

first nine months of 2011 (-6.3% in the first quarter of 2011, -6.0% in the second and -3.8% in the third quarter).
As for handset sales, revenues total 526 million euros for the first nine months of 2011, indicating a recovery entirely driven entirely by the mobile area which benefits from a greater sales push on handsets offering mobile internet connectivity.

As for the Brazil Business Unit, organic revenues grew 17.5% in the first nine months of 2011 compared with the same period of the prior year. Revenues from services confirm the positive trend (+11.5% for the first nine months of 2011 compared with the first nine months of 2010), propelled by the growth of the customer base (59.2 million lines at September 30, 2011). Handset sales also show a significant increase (+118.4% for the first nine months of 2011 over the first nine months of 2010) boosted, like the domestic business, by the strategy focusing on smartphones and webphones as the lever for the growth of mobile data traffic revenues.

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

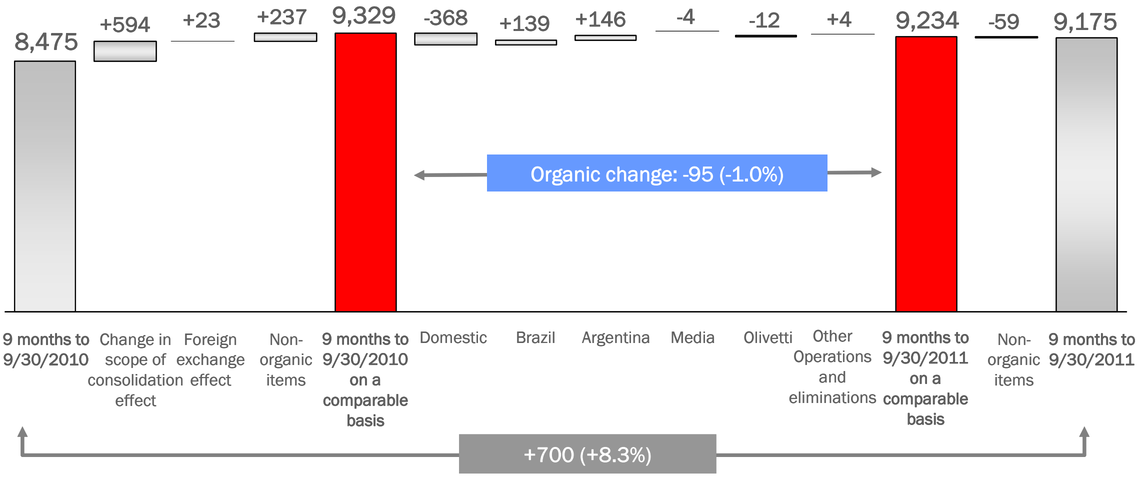
EBITDA

EBITDA is 9,175 million euros, increasing 700 million euros (+8.3%) compared with the same period of the prior year; the EBITDA margin is 41.6% (42.6% for the first nine months of 2010). In organic terms, EBITDA decreased 1% and the EBITDA margin is down 1.2 percentage points (41.9% for the first nine months of 2011 vs. 43.1% for the first nine months of 2010).
Details of EBITDA and EBITDA margins by operating segment are as follows:

(millions of euros)	9 months to 9/30/2011		9 months to 9/30/2010		Change		
		% of total		% of total	amount	%	% organic
Domestic	6,993	*76.2*	7,210	*85.1*	(217)	*(3.0)*	(4.9)
EBITDA margin	*49,6*		*48.0*		*1.6 pp*		*0.4 pp*
Brazil	1,444	*15.7*	1,281	*15.1*	163	12.7	10.7
EBITDA margin	*26.8*		*28.5*		*(1.7) pp*		*(1.7) pp*
Argentina	759	*8.3*	-		759		*23.8*
EBITDA margin	*32.7*		-				*(0.9) pp*
Media, Olivetti and Other Operations	(20)	*(0.2)*	(17)	*(0.2)*	(3)	(17.6)	
Adjustments and Eliminations	*(1)*		1		(2)		
Total consolidated EBITDA	**9,175**	100.0	**8,475**	100.0	700	8.3	(1.0)
EBITDA margin	*41.6*		42.6		*(1.0) pp*		*(1.2) pp*

The following chart summarizes the changes in organic EBITDA:

(millions of euros)



Specifically, the organic change in EBITDA is calculated as follows:

- excluding the effect of the change in the scope of consolidation (594 million euros, mainly referring to the consolidation of Argentina Business Unit);
- excluding the effect of exchange differences (+23 million euros);
- excluding (Revenues and income) / Costs and expenses as described below:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Non-organic revenues	-	(35)	35
Expenses for mobility under Law 223/91	2	240	(238)
Disputes and settlements	15	5	10
Other	42	27	15
Total net non-organic (Revenues and income) / Costs and expenses	**59**	**237**	**(178)**

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

- **Acquisition of goods and services:** the increase of 1,345 million euros is largely due to the entry of the Argentina Business Unit in the scope of consolidation (an impact of 991 million euros for the first nine months of 2011) and the surge in the sales and technical costs of the Brazil Business Unit – due mainly to an overall increase of +762 million euros – needed to support the growth of the customer base and sales. Countering these charges is the performance of the domestic business which benefits from cost cutting actions which contributed to a reduction in purchases of 326 million euros compared with the first nine months of 2010 (-6.2%).
- **Employee benefits expenses:** record a total decrease of 27 million euros. The change was particularly influenced by the entry of the Argentina Business Unit in the scope of consolidation (an impact of 342 million euros for the first nine months of 2011); in contrast, the Italian component of ordinary employee benefits expenses is down 143 million mainly due to the reduction in the average headcount of the salaried workforce by 3,954 persons compared with the first nine months of 2010 (of whom -1,484 are under so-called "solidarity contracts" in Telecom Italia S.p.A. and Shared Service Center S.r.l).

  In 2010, employee benefits expenses comprised a total of 240 million euros relating to the Parent, Telecom Italia, for the start of the mobility procedure under Law 223/91 as a result of the August 4, 2010 agreement with the labor unions.

In August 2011, 2 million euros was added to the provision for mobility under Law 223/91 of SSC set up in November 2010 following the November 16, 2010 agreement signed with the labor unions.

- **Other operating expenses:** grew 409 million euros compared with the first nine months of 2010 largely on account of the entry of the Argentina Business Unit in the scope of consolidation (an impact of 245 million euros for the first nine months of 2011), the increase in the Brazil Business Unit (+96 million euros including a positive exchange rate effect of 9 million euros) and the Domestic Business Unit (+95 million euros). In particular:
  - writedowns and expenses in connection with credit management include 260 million euros referring to the Domestic Business Unit (224 million euros for the first nine months of 2010), 74 million euros to the Brazil Business Unit (108 million euros for the first nine months of 2010) and 22 million euros to the Argentina Business Unit;
  - provision charges recorded for pending disputes mainly include 49 million euros referring to the Domestic Business Unit (33 million euros for the first nine months of 2010), 49 million euros to the Brazil Business Unit (14 million euros for the first nine months of 2010) and 16 million euros to the Argentina Business Unit;
  - telecommunications operating fees and charges show an increase of 137 million euros referring primarily to the Brazil Business Unit (+90 million euros, including a positive exchange rate effect of 6 million euros), as well as to the entry of the Argentina Business Unit in the scope of consolidation (43 million euros).

Details of the main line items which impacted EBITDA are presented in the following tables:

Acquisition of goods and services

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Purchases of goods	1,806	932	874
Portion of revenues to be paid to other operators and interconnection costs	3,145	3,216	(71)
Commercial and advertising costs	1,660	1,491	169
Power, maintenance and outsourced services	1,204	907	297
Rent and leases	481	442	39
Other service expenses	1,146	1,109	37
Total acquisition of goods and services	**9,442**	**8,097**	**1,345**
% of Revenues	*42.8*	*40.7*	*2.1 pp*

Employee benefits expenses

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Employee benefits expenses - Italy	**2,274**	2,655	(381)
Ordinary employee expenses and costs	2,272	2,415	(143)
Expenses for the mobility procedure under Law 231/1991	2	240	(238)
Employee benefits expenses – Outside Italy	610	256	354
Total employee benefits expenses	**2,884**	**2,911**	**(27)**
% of Revenues	*13.1*	*14.6*	*(1.5) pp*

Average headcount of the salaried workforce

(equivalent number)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Average salaried headcount – Italy	53,569	57,523	(3,954)
Average salaried headcount – Outside Italy (1)	24,624	9,370	15,254
Total average salaried headcount (2)	**78,193**	**66,893**	**11,300**

(1) The increment in the average headcount of the salaried workforce is primarily attributable to the entry of the Argentina Business Unit in the scope of consolidation (15,142 average headcount in the first nine months of 2011).
(2) Includes the average headcount with temp work contracts: 94 in the first nine months of 2011 (79 in Italy and 15 outside Italy). In the first nine months of 2010, the headcount was 80 (67 in Italy and 13 outside Italy).

Headcount at period-end

(number)	9/30/2011	12/31/2010	Change
Headcount – Italy	58,266	58,045	221
Headcount – Outside Italy	26,860	26,155	705
Total(1)	**85,126**	**84,200**	**926**

(1) Includes headcount with temp work contracts: 105 at September 30, 2011 and 71 at December 31, 2010.

Other income

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Late payment fees charged for telephone services	55	54	1
Recovery of employee benefit expenses, purchases and services rendered	26	29	(3)
Capital and operating grants	19	29	(10)
Damage compensation, penalties and sundry recoveries	20	11	9
Sundry income	47	37	10
Total	**167**	**160**	**7**

Other operating expenses

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Writedowns and expenses in connection with credit management	358	338	20
Provision charges	120	51	69
Telecommunications operating fees and charges	467	330	137
Indirect duties and taxes	247	89	158
Penalties, settlement compensation and administrative fines	32	19	13
Association dues and fees, donations, scholarships and traineeships	17	17	-
Sundry expenses	30	18	12
Total	**1,271**	**862**	**409**

Depreciation and amortization

Details are as follows:

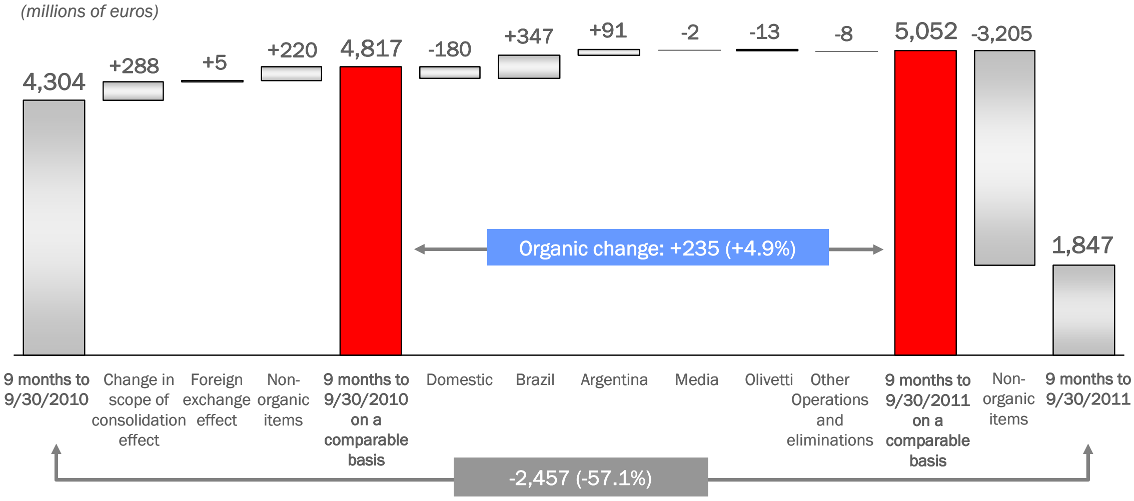
(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Amortization of intangible assets with a finite useful life	1,625	1,721	(96)
Depreciation of property, plant and equipment – owned and leased	2,544	2,452	92
Total	**4,169**	**4,173**	**(4)**

The increase in amortization and depreciation charges is due to the entry of the Argentina Business Unit in the scope of consolidation (an impact of 383 million euros for the first nine months of 2011) offset by the decrease in amortization and depreciation charges of the Domestic Business Unit (-202 million euros) and the Brazil Business Unit (-184 million euros, including the effect of the change in the real/euro exchange rate of +19 million euros).

Net gains (losses) on disposals of non-current assets
Net gains on disposals of non-current assets total 23 million euros and include the gain, net of the related transaction costs for a total of 35 million euros, in connection with the completion of the transactions for the sale of Loquendo.
For the first nine months of 2010, net losses on disposals of non-current assets were recorded for 14 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.

Impairment reversals (losses) on non-current assets
The impairment losses on non-current assets amount to 3,182 million euros for the first nine months of 2011 following the impairment charge to goodwill allocated to the Core Domestic cash-generating unit of the Domestic Business Unit.
It should be noted, especially, that the updating of the impairment test on the recoverability of the value of goodwill, carried out in drawing up the Half-year Financial Report at June 30, 2011, will be carried out concurrently with the preparation of the 2011 annual financial statements, also on the basis of the flows anticipated from the new Business Plan 2012 – 2014, which will be approved shortly.
In particular, concerning internal factors, the trend of the Telecom Italia Group's ordinary operations for the third quarter of 2011 was in line with the targets announced to the market and used as the basis for the impairment test at June 30, 2011. As for external factors, owing to the situation of extreme uncertainty and volatility regarding the macroeconomic scenario and financial markets, it is believed that stock prices and other indicators from external sources do not constitute today a clear and significant indicator which might prompt the repetition of the impairment test.

EBIT
EBIT is a positive 1,847 million euros, with a reduction of 2,457 million euros compared with the first nine months of 2010.
The organic change in EBIT, calculated by excluding also the above goodwill impairment charge, is a profit of 235 million euros (+4.9%); the organic EBIT margin grew from 22.2% in the first nine months of 2010 to 22.9% in the first nine months of 2011.



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

- excluding the effect of the change in the scope of consolidation (288 million euros, mainly referring to the consolidation of the Argentina Business Unit);
- excluding the effect of the exchange differences (+5 million euros);
- excluding (Revenues and income) / Costs and expenses, with details as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Non-organic (Revenues and income)/Costs and expenses already described under EBITDA	59	237	(178)
Core Domestic CGU goodwill impairment charge	3,182	-	3,182
(Gains)/losses on non-current assets and investments	(36)	(17)	(19)
Total net non-organic (Revenues and income)/Costs and expenses	**3,205**	**220**	**2,985**

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

Details are as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
EtecSA (Cuba)	-	36	(36)
Other	(19)	12	(31)
Total	**(19)**	**48**	**(67)**

The entire investment in EtecSA (Cuba), which was classified in Non-current assets held for sale starting from the month of October 2010, was sold on January 31, 2011.

Other income (expenses) from investments

For the first nine months of 2011, Other income (expenses) from investments is an income balance of 15 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.

For the first nine months of 2010, Other income (expenses) from investments was an income balance of 1 million euros and mainly included the net gains on the sale of minor companies.

Finance income (expenses)

Finance income (expenses) is an expense balance of 1,466 million euros (an expense balance of 1,550 million euros for the first nine months of 2010), with a positive change of 84 million euros largely arising from lower net debt exposure.

Income tax expense

Income tax expense is 1,237 million euros and posts an increase of 338 million euros compared with the first nine months of 2010 (899 million euros), owing to higher taxable profit reported by the South American Business Units, which also includes the entry of the Argentina Business Unit in the scope of consolidation.

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

For the first nine months of 2011, the balance is a loss of 11 million euros and includes expenses incurred in connection with the sales transactions of prior years.

Profit (loss) for the period

The profit (loss) for the period can be analyzed as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010
Profit (loss) for the period	**(871)**	**1,902**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(1,195)	1,821
Loss from Discontinued operations/Non-current assets held for sale	(11)	(2)
Profit (loss) for the period attributable to owners of the Parent	**(1,206)**	**1,819**
Non-controlling interests:		
Profit from continuing operations	335	83
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit for the period attributable to Non-controlling interests	**335**	**83**

▸ Consolidated Operating Performance for the Third Quarter of 2011

Third Quarter 2011 – Consolidated Income Statement Data

(millions of euros)	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	Change (a-b) amount	%	% organic
Revenues	**7,516**	**6,676**	840	12.6	3.7
EBITDA	**3,198**	**2,742**	456	16.6	0.8
EBITDA margin	*42.5%*	*41.1%*	*1.4 pp*		
Organic EBITDA margin	*42.7%*	*44.0%*	*(1.3) pp*		
EBIT	**1,888**	**1,423**	465	32.7	6.4
EBIT margin	*25.1%*	*21.3%*	*3.8 pp*		
Organic EBIT margin	*24.9%*	*24.2%*	*0.7 pp*		
Profit before tax from continuing operations	**1,376**	**879**	497	56.5	
Profit from continuing operations	**920**	**662**	258	39.0	
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-			
Profit for the period	**920**	**662**	258	39.0	
Profit for the period attributable to owners of the Parent	**807**	**608**	199	32.7	

Revenues

Consolidated revenues for the third quarter of 2011 display a gain of 840 million euros, increasing 12.6% compared with the third quarter of 2010. In organic terms, the improvement is equal to 3.7% and revenues grew 2.7 percentage points over the increase reported in the first half of 2011. The revenue performance for the third quarter of 2011 is driven by the positive trend of the Brazil and Argentina Business Units which, compared with the corresponding quarter of the prior year, generated a growth, respectively, of 18.9% and 26.7%, and by the improved trend in the Domestic area.

EBITDA

Consolidated EBITDA for the third quarter of 2011 is up 456 million euros, or +16.6%. Organic EBITDA increased 0.8%, again thanks to the contribution by the South American Business Units. The EBITDA margin reached 42.5%, gaining 1.4 percentage points over the same period of the prior year. The organic EBITDA margin, instead, is down 1.3 percentage points to 42.7% (compared with 44.0% for the third quarter of 2010); this phenomenon can be traced to the greater weight of the South American business, where EBITDA margins are lower than the Domestic business.

EBIT

Consolidated EBIT for the third quarter of 2011 is 1,888 million euros, increasing 465 million euros compared with the same three months in the prior year (+32.7%). The quarter in question includes a gain on the sale of the Loquendo investment of 35 million euros, net of transaction costs. Organic EBIT increased +6.4%. The EBIT margin is 25.1% for the third quarter of 2011, improving 3.8 percentage points over the corresponding quarter of the previous year. The organic EBIT margin, instead, rose 0.7 percentage points to 24.9% compared with the third quarter of 2010.

Profit for the period attributable to the owners of the Parent

The profit for the third quarter of 2011 attributable to owners of the Parent is 807 million euros, up 199 million euros (+32.7%) compared with the same period of the previous year.

▸ Consolidated Financial Position Performance

Financial position structure

(millions of euros)	9/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets			
Non-current assets	68,376	73,062	(4,686)
Goodwill	*40,565*	*43,923*	*(3,358)*
Other intangible assets	*7,260*	*7,936*	*(676)*
Tangible assets	*15,372*	*16,415*	*(1,043)*
Other non-current assets	*5,179*	*4,788*	*391*
Current assets	14,205	15,589	(1,384)
Inventories, Trade and miscellaneous receivables and other current assets	*8,340*	*8,177*	*163*
Current income tax receivables	*122*	*132*	*(10)*
Securities other than investments, Financial receivables and other current financial assets, Cash and cash equivalents	*5,743*	*7,280*	*(1,537)*
Discontinued operations/Non-current assets held for sale	-	389	(389)
of a financial nature	-	-	
of a non-financial nature	-	*389*	*(389)*
	82,581	**89,040**	**(6,459)**
Equity and liabilities			
Equity	29,818	32,555	(2,737)
Non-current liabilities	38,250	38,414	(164)
Current liabilities	14,513	18,071	(3,558)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	-	-	
of a financial nature	-	-	
of a non-financial nature	-	-	
	82,581	**89,040**	**(6,459)**

Non-current assets

- **Goodwill:** decreased 3,358 million euros due not only to the previously mentioned impairment charge of 3,182 million euros but also to the following variations:
  - increase of 24 million for the recognition of the provisional amount of goodwill following the acquisition of control and the subsequent consolidation of the 4GH group. As set out in IFRS 3, within 12 months of the sale, the accounting of the business combination will be finalized through the definitive allocation of the purchase price paid;
  - decrease of 10 million euros connected with the sale of the subsidiary Loquendo on September 30, 2011;
  - change in the exchange rates of the Brazilian and Argentine companies.

- **Other intangible assets:** decreased 676 million euros, from 7,936 million euros at the end of 2010 to 7,260 million euros at September 30, 2011, being the balance of the following:
  - additions (+1,309 million euros);
  - amortization charge for the period (-1,625 million euros);
  - disposals, exchange differences, other changes in the scope of consolidation, reclassifications and other movements (for a net balance of -360 million euros).

- **Tangible assets:** decreased 1,043 million euros from 16,415 million euros at the end of 2010 to 15,372 million euros at September 30, 2011, being the balance of the following:

- additions (+1,881 million euros);
- depreciation charge for the period (-2,544 million euros);
- disposals, exchange differences, changes in the scope of consolidation, reclassifications and other movements (for a net balance of -380 million euros).

Discontinued operations/Non-current assets held for sale
At December 31, 2010, this line item included the entire investment held in EtecSA (Cuba) which was sold on January 31, 2011.

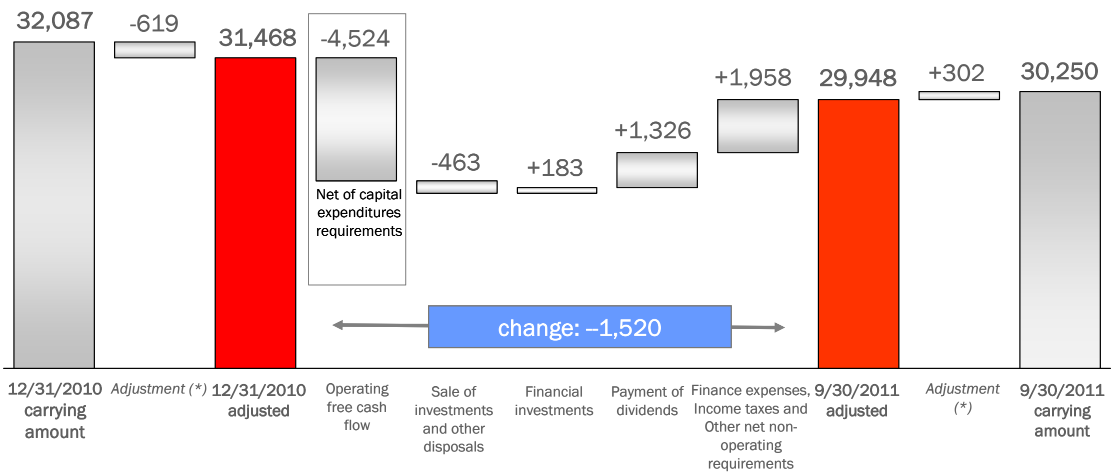
Consolidated equity
Consolidated equity amounts to 29,818 million euros (32,555 million euros at December 31, 2010), of which 26,268 million euros is attributable to owners of the Parent (28,819 million euros at December 31, 2010) and 3,550 million euros is attributable to Non-controlling interests (3,736 million euros at December 31, 2010).
In greater detail, the changes in equity are the following:

(millions of euros)	9/30/2011	12/31/2010
At the beginning of the period	32,555	27,120
Total comprehensive income (loss) for the period	(1,344)	4,568
Dividends declared by:	(1,257)	(1,164)
Telecom Italia S.p.A.	*(1,184)*	*(1,029)*
Other Group companies	*(73)*	*(135)*
Effect of capital transaction by Telecom Italia Media	-	47
Issue of equity instruments	3	32
Effect of increase in economic interest in Argentina BU	(153)	-
Change in scope of consolidation and other changes	14	1,952
At the end of the period	29,818	32,555

Cash flows

The following chart summarizes the main transactions which had an impact on the change in net financial debt during the first nine months of 2011:

(millions of euros)



(*) Adjustment of the fair value measurement of derivatives and related financial assets and liabilities

Change in adjusted net financial debt

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Change
EBITDA	9,175	8,475	700
Capital expenditures on an accrual basis	(3,190)	(2,938)	(252)
Change in net operating working capital:	(1,318)	(1,823)	505
Change in inventories	(124)	107	(231)
Change in trade receivables and net amounts due on construction contracts	131	(335)	466
Change in trade payables (*)	(1,032)	(1,441)	409
Other changes in operating receivables/payables	(293)	(154)	(139)
Change in provisions for employee benefits	(95)	204	(299)
Change in operating provisions and Other changes	(48)	(467)	419
Net operating free cash flow	**4,524**	**3,451**	**1,073**
% of Revenues	20.5	*17.3*	*3.2 pp*
Sale of investments and other disposals flow	463	848	(385)
Financial investments	(183)	(39)	(144)
Telecom Italia (PAD) and Telecom Italia Media capital increases	-	67	(67)
Dividend payment	(1,326)	(1,061)	(265)
Finance expenses, income taxes and other net non-operating requirements flow	(1,958)	(2,302)	344
Reduction/(Increase) in adjusted net financial debt	**1,520**	**964**	**556**

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

In addition to what has already been described with reference to EBITDA, net operating free cash flow during the first nine months of 2011 has been particularly impacted by the following:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	9 months to 9/30/2011	% of total	9 months to 9/30/2010	% of total	Change
Domestic	2,015	*63.2*	2,153	*73.3*	(138)
Brazil	807	*25.3*	741	*25.2*	66
Argentina	331	*10.4*	-	-	331
Media, Olivetti and Other Operations	37	*1.1*	44	*1.5*	(7)
Adjustments and Eliminations	-	-	-	-	
Total consolidated capital expenditures	**3,190**	**100.0**	**2,938**	**100.0**	**252**
% of Revenues	*14.5*		*14.8*		*(0.3) pp*

Capital expenditures in the first nine months of 2011 total 3,190 million euros, an increase of 252 million euros (+8.6%) compared with the first nine months of 2010. Specifically, the reduction in the capital expenditures of the Domestic Business Unit (-138 million euros; -6.4%) is offset by the entry of the Argentina Business Unit in the scope of consolidation (+331 million euros) and higher capital expenditures by the Brazil Business Unit (+66 million euros; +8.9%).

Sale of investments and other disposals flow

Sale of investments and other disposals flow totals 463 million euros and principally relates to:

- 398 million euros for the portion already received, net of related transaction costs, on the sale of EtecSA (Cuba). The transaction specifically provides that the Telecom Italia Group will receive a total of 706 million U.S. dollars, of which 500 million U.S. dollars has already been paid by the buyer on January 31, 2011; the remaining amount will 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 on September 30, 2011.

Financial investments:

- Acquisition of stakes in the Sofora – Telecom Argentina group

  During the first nine months of 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 155 million euros.

  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 *Preferidas B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars. The ADSs in question represent 117,587.6 *Preferidas B* shares (without voting rights). This share package was later conferred to the Argentine subsidiary Inversiones Milano 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 a 10% stake in Sofora Telecomunicaciones S.A. from the local partner Werthein and by so doing increased its investment holding in Sofora from 58% to 68% of the company's share capital. The transaction 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 Werthein, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

  In view of the above acquisitions, the economic interest of the Telecom Italia Group in Telecom Argentina rose from 16.2% at December 31, 2010 to 21.1% at September 30, 2011.

- Acquisition of control of the 4GH group

  On July 27, 2011, Telecom Italia, after having received the AGCM's approval, finalized the acquisition of a 71% stake in the company 4G Holding S.p.A., with a total impact in terms of net financial debt of 27 million euros, for an outlay of about 8.4 million euros and the consolidation of the acquired group's financial debt. The deal was carried out through the wholly-owned subsidiary of the Parent, TLC Commercial Services S.r.l..

  The acquisition of the 4GH group, with its approximate 200 points of sale located in the most important shopping centers in Italy, will make it possible for Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment, extending its reach throughout the territory.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during the first nine months of 2011, of net finance expenses, income taxes and also the change in non-operating receivables and payables.

Net Financial Debt

Net financial debt is composed as follows:

Net financial debt

(millions of euros)	9/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	24,114	24,589	(475)
Amounts due to banks, other financial payables and liabilities	8,794	8,317	477
Finance lease liabilities	1,347	1,442	(95)
	34,255	**34,348**	**(93)**
Current financial liabilities (*)			
Bonds	2,839	4,989	(2,150)
Amounts due to banks, other financial payables and liabilities	1,385	1,661	(276)
Finance lease liabilities	251	232	19
	4,475	**6,882**	**(2,407)**
Financial liabilities relating to Discontinued operations/Non-current assets held for sale	-	-	-
Total Gross financial debt	**38,730**	**41,230**	**(2,500)**
Non-current financial assets			
Securities other than investments	(12)	(13)	1
Financial receivables and other non-current financial assets	(2,725)	(1,850)	(875)
	(2,737)	**(1,863)**	**(874)**
Current financial assets			
Securities other than investments	(1,030)	(1,316)	286
Financial receivables and other current financial assets	(571)	(438)	(133)
Cash and cash equivalents	(4,142)	(5,526)	1,384
	(5,743)	**(7,280)**	**1,537**
Financial assets relating to Discontinued operations/Non-current assets held for sale	-	-	-
Total financial assets	**(8,480)**	**(9,143)**	**663**
Net financial debt carrying amount	**30,250**	**32,087**	**(1,837)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(302)*	*(619)*	317
Adjusted net financial debt	**29,948**	**31,468**	**(1,520)**
Breakdown as follows:			
Total adjusted gross financial debt	**36,343**	**39,383**	**(3,040)**
Total adjusted financial assets	**(6,395)**	**(7,915)**	**1,520**
(*) *of which current portion of medium/long-term debt:*			
Bonds	*2,839*	*4,989*	*(2,150)*
Amounts due to banks, other financial payables and liabilities	*906*	*919*	*(13)*
Finance lease liabilities	*251*	*232*	*19*

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. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 60% - 70% for the fixed-rate component and 30% - 40% for the variable-rate component.

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

The volatility of interest rates and exchange rates, featuring prominently in the financial markets since the fourth quarter of 2008, significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. Having said this and in order to present a more realistic analysis of net financial debt, starting from the actual figures at June 2009, in addition to the usual indicator (renamed "Net financial debt carrying amount"), a new indicator was also presented denominated "Adjusted net financial debt" which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. The measurement of derivative financial instruments, which also has the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an actual financial settlement.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during the first nine months of 2011 resulted in a positive effect on net financial debt at September 30, 2011 of 800 million euros (1,209 million euros at December 31, 2010).

Gross financial debt

Bonds

Bonds at September 30, 2011 are recorded for 26,953 million euros (29,578 million euros at December 31, 2010). Their nominal repayment amount is 25,622 million euros, euros, decreasing 2,707 million euros compared with December 31, 2010 (28,329 million euros).

The change in bonds during the first nine months of 2011 is as follows:

(millions of original currency)	Currency	Amount	Issue date
New issues			
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

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia Capital S.A. Floating Rate Notes 850 million U.S. dollars, 3-month USD LIBOR +0.61%, issue guaranteed by Telecom Italia S.p.A.	USD	850	7/18/2011
Telecom Italia Capital S.A. 750 million U.S. dollars 6.2%, issued guaranteed by Telecom Italia S.p.A.	USD	750	7/18/2011
Telecom Italia Finance S.A. 7.50% 1,791 million euros (1)	Euro	1,791	4/20/2011
Telecom Italia Capital S.A. Floating Rate Notes 400 million U.S. dollars, 3-month USD LIBOR +0.48%, issue guaranteed by Telecom Italia S.p.A.	USD	400	2/1/2011
Telecom Italia S.p.A. 4.5% 750 million euros	Euro	750	1/28/2011

(1) **Net of buybacks by the company for 209 million euros during the years 2009-2011.**

As occurred in past years, during the first nine months of 2011, the Telecom Italia Group bought back bonds, with the aim of:

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

In particular, the following bonds were repurchased:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
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

(*) 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.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, the nominal amount at September 30, 2011 is equal to 280 million euros and 25 million euros lower compared with December 31, 2010 (305 million euros).

Revolving Credit Facility and term loan

The following table shows the composition and the drawdown of the committed credit lines available at September 30, 2011. These are represented by the revolving credit facility for a total of 8 billion euros expiring August 2014, the syndicated revolving line for a total of 1.25 billion euros expiring February 2013 and the revolving credit line for a total of 200 million euros signed December 20, 2010 and expiring June 19, 2012 (renewable at the discretion of Telecom Italia up to December 18, 2013):

(billions of euros)	9/30/2011		12/31/2010	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring February 2013	1.25	–	1.25	–
Revolving Credit Facility – expiring August 2014	8.0	1.5	8.0	1.5
Revolving Credit Facility – expiring September 2012 (renewable until December 2013)	0.2	0.12	0.2	0.12
Total	**9.45**	**1.62**	**9.45**	**1.62**

On August 3, 2011, a bilateral stand-by credit line was secured for a period of five years (expiring August 3, 2016) for 100 million euros from Banca Regionale Europea, drawn down for the entire amount.

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 due within 12 months) is 7.69 years.

The average cost of the Group's debt, considered as the cost for the period calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.5%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the following table:

Detail of the maturities of Financial liabilities – nominal repayment amount:

(millions of euros)	maturing by 9/30/ of the year: 2012	2013	2014	2015	2016	After 2016	Total
Bonds	2,159	3,000	3,395	926	3,984	12,158	25,622
Loans and other financial liabilities	647	1,167	2,375	620	866	1,925	7,600
Finance lease liabilities	236	131	175	150	133	757	1,582
Total	**3,042**	**4,298**	**5,945**	**1,696**	**4,983**	**14,840**	**34,804**
Current financial liabilities	463	-	-	-	-	-	463
Total	**3,505**	**4,298**	**5,945**	**1,696**	**4,983**	**14,840**	**35,267**

Current financial assets and liquidity margin

The Telecom Italia Group's available liquidity margin, calculated as the sum of Cash and cash equivalents and current Securities other than investments, amounts to 5,172 million euros at September 30, 2011 (6,842 million euros at December 31, 2010) which, together with its unused committed credit lines for 7.8 billion euros, allows the Group to amply meet its repayment obligations over the next 24 months.

In particular:

- **Cash and cash equivalents** amount to 4,142 million euros (5,526 million euros at December 31, 2010). The different technical forms of investing available cash at September 30, 2011, which include euro commercial paper for 175 million euros, can be analyzed as follows:
  - Maturities: investments have a maximum maturity of three months;
  - Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality and at least an A- rating. Investments by the companies in South America are made with leading local counterparts;
  - Country risk: investments are made mainly in major European financial markets.
- **Securities other than investments** amount to 1,030 million euros (1,316 million euros at December 31, 2010). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. These mainly consist of 871 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (with an A rating by S&P's) and 159 million euros of bonds (with a rating of at least BBB+ by S&P's) with different maturities, but all with an active market, that is, readily convertible into cash.

In the third quarter of 2011, adjusted net financial debt decreased 1,171 million euros: the positive effects of operating activities absorbed the payment of income taxes in July.

Adjusted net financial debt

(millions of euros)	9/30/2011	6/30/2011	Change
Net financial debt carrying amount	**30,250**	**31,505**	**(1,255)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(302)*	*(386)*	*84*
Adjusted net financial debt	**29,948**	**31,119**	**(1,171)**
Breakdown as follows:			
Total adjusted gross financial debt	***36,343***	***37,082***	***(739)***
Total adjusted financial assets	***(6,395)***	***(5,963)***	***(432)***

►Covenants and negative pledges relating to outstanding positions at September 30, 2011

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,057 million euros (out of a total of 2,770 million euros at September 30, 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 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 ("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 below 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 did not require new guarantees or repayments of loans.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread added to the Euribor of between a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.

The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company's assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). 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:

- Multi-currency revolving credit facility (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and

Telecom Italia shall be held to repay any sum disbursed (currently equal to 1,500,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders' meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders' agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;

- Revolving credit facility (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and contemplates a discipline similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders' agreement. Therefore, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining unchanged;
- Revolving credit facility (200 million 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 120 million 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 contracts signed by Telecom Italia with the EIB, for a total maximum amount of approximately 2.75 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. In this regard, the loan contract signed on August 5, 2011 and in the three contracts – covered, respectively, by bank guarantees and guarantees provided by Sace S.p.A. – signed on September 26, 2011, a change of control is generated if a subject or group of subjects, acting in concert acquires control of Telecom Italia, or 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 signing the agreement holds, 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. or their subsidiaries. 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 below 500 million euros.
- Export Credit Agreement (residual nominal amount of 50 million euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change in control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due.

Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, under pain of a request for the early repayment of the loan.

Finally, as of September 30, 2011, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

Events Subsequent to September 30, 2011

Bonds

On October 20, 2011, Telecom Italia S.p.A. issued bonds for 750 million euros with a 7% fixed rate, maturing January 20, 2017. The bonds were issued at a price of 99.406% and the yield is equal to 7.15%.
On November 3, 2011, Telecom Italia S.p.A. reopened the same bond issue for an amount of 250 million euros at a price of 102.522% and a yield of 6.423%. Overall, the issue of 1 billion euros has a yield of 6.97%.

Bid for LTE Frequencies

On October 3, 2011, the Ministry of Economic Development – Communications Department, after the conclusion of the bidding procedures, informed Telecom Italia that it had won two blocks of frequencies at 800 MHz, a block of frequencies at 1800 MHz and three blocks of frequencies at 2600 MHz. The total cost is 1,223 million euros, including a discount of 38 million euros, in exchange for Telecom Italia's commitment to build over 50% of the new networks using equipment with eco-sustainable environmental features. Suitable guarantees were provided against this discount.
On October 13, 2011 Telecom Italia presented a request to the Ministry of Economic Development to pay a maximum of 456 million euros in installments. On October 26, 2011, the Ministry, in accordance with the bidding regulations and following the public hearing held at the Ministry's seat on October 25, 2011, informed Telecom Italia that it had been awarded the blocks of frequencies and, for the two lots of 800MHz, the related matching lists of municipalities. On October 28, 2011, Telecom Italia consequently paid 767 million euros and recorded a loan of 456 million euros for the installment payments, which is secured by a specific guarantee.

Increase of TIM Participações S.A. share capital

On October 27, 2011, the share capital increase of Tim Participações S.A. ended with the issue of a total 200,258,368 ordinary shares at the offering price of 8.60 reais each for a total of 1.7 billion reais (equal to about 700 million euros). Besides the 190,796,858 shares in the initial offering, there were 9,461,510 shares of the greenshoe option, completely exercised, granted by Tim Participações S.A. to Morgan Stanley S.A. and Morgan Stanley & Co. LLC, part of the placement consortium.
The Telecom Italia Group, through Telecom Italia International N.V. – the parent of the holding company Tim Brasil Serviços e Participações S.A. – subscribed to its entire share of the reserved capital increase in Tim Participações S.A. for 1.1 billion reais (equal to about 450 million euros), but was unable to subscribe to any of the shares issued following exercise of the greenshoe. Consequently, the percentage investment in Tim Participações S.A. fell to 66.68% from the previous 66.94%.

Acquisition of the AES Atimus group

On October 31, 2011, the purchase from Compagnia Brasiliana de Energia was concluded, through the subsidiary Tim Celular S.A., of the AES Atimus group, an operator in the sector of telecommunications infrastructures in the states of San Paolo and Rio de Janeiro. The price paid was about 1.5 billion reais (equal to approximately 650 million euros), which takes into account the debt position of the acquired companies. Tim Celular S.A., after the acquisition, now holds a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A..

Purchase of Telecom Argentina S.A. shares (Sofora group)

On October 27, 2011, Inversiones Milano S.A., a wholly-owned subsidiary of the Telecom Italia Group, purchased 14.48 million Class B Telecom Argentina shares at a price of 20.50 Argentine pesos per share. The equivalent amount of the transaction was 296.84 million Argentine pesos (equal to about 51 million euros) which was paid on November 1, 2011. As a result of this transaction, the economic interest in Telecom Argentina by the Telecom Italia Group rose to 22.61%.

Joint project with group F2i for fiber optics in Milan

The board of directors has approved a plan to set up a new company jointly with Group F2i (which would hold a controlling stake) to wire Milan's buildings with fiber optic cable.

The new company would be responsible for laying the dark fiber inside the buildings, making it available at transparent and non-discriminatory conditions to any operator wishing to provide ultrabroadband services.

The plan foresees the eventual cabling of around 36,000 buildings, over 80% of properties in the city.

The board has authorized top management to proceed with negotiations and finalize the agreements.

Business Outlook for the Year 2011

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

- Organic revenues and organic EBITDA: basically stable compared with 2010 (taking into account the consolidation of the Argentina Business Unit for 12 months);
- Capital expenditures: approximately 4.8 billion euros, excluding the impact of the outcome of the bid to use LTE technology for mobile frequencies in the domestic market equal to about 1.2 billion euros;
- Adjusted net financial debt: about 30.7 billion euros at the end of 2011 (29.5 billion euros excluding the impact of the above bid).

Interim Consolidated Financial Statements – Telecom Italia Group

Separate Consolidated Income Statements

(millions of euros)	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	Change (a-b) amount	%
Revenues	**7,516**	**6,676**	**22,059**	**19,899**	**2,160**	**10.9**
Other income	59	56	167	160	7	4.4
Total operating revenues and other income	**7,575**	**6,732**	**22,226**	**20,059**	**2,167**	**10.8**
Acquisition of goods and services	(3,210)	(2,760)	(9,442)	(8,097)	(1,345)	(16.6)
Employee benefits expenses	(920)	(1,066)	(2,884)	(2,911)	27	0.9
Other operating expenses	(427)	(292)	(1,271)	(862)	(409)	(47.4)
Changes in inventories	54	5	135	(120)	255	°
Internally generated assets	126	123	411	406	5	1.2
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**3,198**	**2,742**	**9,175**	**8,475**	**700**	**8.3**
Depreciation and amortization	(1,336)	(1,328)	(4,169)	(4,173)	4	0.1
Gains (losses) on disposals of non-current assets	26	16	23	14	9	°
Impairment reversals (losses) on non-current assets	-	(7)	(3,182)	(12)	(3,170)	°
Operating profit (EBIT)	**1,888**	**1,423**	**1,847**	**4,304**	**(2,457)**	**(57.1)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(7)	9	(19)	48	(67)	°
Other income (expenses) from investments	-	(1)	15	1	14	°
Finance income	(41)	(684)	1,644	2,780	(1,136)	(40.9)
Finance expenses	(464)	132	(3,110)	(4,330)	1,220	28.2
Profit before tax from continuing operations	**1,376**	**879**	**377**	**2,803**	**(2,426)**	°
Income tax expense	(456)	(217)	(1,237)	(899)	(338)	(37,6)
Profit (loss) from continuing operations	**920**	**662**	**(860)**	**1,904**	**(2,764)**	°
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-	(11)	(2)	(9)	°
Profit (loss) for the period	**920**	**662**	**(871)**	**1,902**	**(2,773)**	°
Attributable to:						
• Owners of the Parent	**807**	**608**	**(1,206)**	**1,819**	**(3,025)**	°
• Non-controlling interests	113	54	335	83	252	°

(euro) **Earnings per share:** Basic and Diluted Earnings per Share	9 months to 9/30/2011	9 months to 9/30/2010
Ordinary Share	(0.07)	0.09
Savings Share	(0.07)	0.10
of which:		
from Continuing operations		
ordinary share	(0.07)	0.09
savings share	(0.07)	0.10
from Discontinued operations/Non-current assets held for sale		
ordinary share	-	-
savings share	-	-

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

(millions of euros)		3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011	9 months to 9/30/2010
Profit (loss) for the period	**(a)**	**920**	**662**	**(871)**	**1,902**
Other components of the Statements of Comprehensive Income:					
Available-for-sale financial assets:					
Profit (loss) from fair value adjustments		4	15	9	30
Loss (profit) transferred to the Separate Consolidated Income Statement		-	(1)	1	4
Income tax expense		(3)	(3)	(4)	(10)
	(b)	**1**	**11**	**6**	**24**
Hedging instruments:					
Profit (loss) from fair value adjustments		608	(998)	262	396
Loss (profit) transferred to the Separate Consolidated Income Statement		(484)	817	150	(294)
Income tax expense		(35)	47	(115)	(29)
	(c)	**89**	**(134)**	**297**	**73**
Exchange differences on translating foreign operations:					
Profit (loss) on translating foreign operations		(494)	(231)	(851)	358
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		-	-	75	-
Income tax expense		-	-	-	-
	(d)	**(494)**	**(231)**	**(776)**	**358**
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:					
Profit (loss)		(1)	(42)	-	12
Loss (profit) transferred to the Separate Consolidated Income Statement		-	-	-	-
Income tax expense		-	-	-	-
	(e)	**(1)**	**(42)**	**-**	**12**
Total	**(f=b+c+d+e)**	**(405)**	**(396)**	**(473)**	**467**
Total profit (loss) for the period	**(a+f)**	**515**	**266**	**(1,344)**	**2,369**
Attributable to:					
Owners of the Parent		**479**	**268**	**(1,372)**	**2,196**
Non-controlling interests		36	(2)	28	173

Consolidated Statements of Financial Position

(millions of euros)		9/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		40,565	43,923	(3,358)
Other intangible assets		7,260	7,936	(676)
		47,825	**51,859**	**(4,034)**
Tangible assets				
Property, plant and equipment owned		14,260	15,238	(978)
Assets held under finance leases		1,112	1,177	(65)
		15,372	**16,415**	**(1,043)**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		66	85	(19)
Other investments		42	43	(1)
Securities, financial receivables and other non-current financial assets		2,737	1,863	874
Miscellaneous receivables and other non-current assets		1,116	934	182
Deferred tax assets		1,218	1,863	(645)
		5,179	**4,788**	**391**
Total Non-current assets	(a)	**68,376**	**73,062**	**(4,686)**
Current assets				
Inventories		527	387	140
Trade and miscellaneous receivables and other current assets		7,813	7,790	23
Current income tax receivables		122	132	(10)
Securities other than investments		1,030	1,316	(286)
Financial receivables and other current financial assets		571	438	133
Cash and cash equivalents		4,142	5,526	(1,384)
Current assets sub-total		**14,205**	**15,589**	**(1,384)**
Discontinued operations/Non-current assets held for sale		-	**389**	**(389)**
of a financial nature		-	-	-
of a non-financial nature		-	389	(389)
Total Current assets	(b)	**14,205**	**15,978**	**(1,773)**
Total Assets	(a+b)	**82,581**	**89,040**	**(6,459)**

(millions of euros)		9/30/2011 (a)	12/31/2010 (b	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		26,268	28,819	(2,551)
Equity attributable to non-controlling interests		3,550	3,736	(186)
Total Equity	**(c)**	**29,818**	**32,555**	**(2,737)**
Non-current liabilities				
Non-current financial liabilities		34,255	34,348	(93)
Employee benefits		1,041	1,129	(88)
Deferred tax liabilities		1,047	991	56
Provisions		827	860	(33)
Miscellaneous payables and other non-current liabilities		1,080	1,086	(6)
Total non-current liabilities	**(d)**	**38,250**	**38,414**	**(164)**
Current liabilities				
Current financial liabilities		4,475	6,882	(2,407)
Trade and miscellaneous payables and other current liabilities		9,831	10,954	(1,123)
Current income tax payables		207	235	(28)
Current liabilities sub-total		**14,513**	**18,071**	**(3,558)**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		-	-	-
of a financial nature		-	-	-
of a non-financial nature		-	-	-
Total Current liabilities	**(e)**	**14,513**	**18,071**	**(3,558)**
Total Liabilities	**(f=d+e)**	**52,763**	**56,485**	**(3,722)**
Total Equity and Liabilities	**(c+f)**	**82,581**	**89,040**	**(6,459)**

Consolidated Statements of Cash Flows

(millions of euros)		9 months to 9/30/2011	9 months to 9/30/2010
Cash flows from operating activities:			
Profit (loss) from continuing operations		(860)	1,904
Adjustments for:			
Depreciation and amortization		4,169	4,173
Impairment losses (reversals) on non-current assets (including investments)		3,196	71
Net change in deferred tax assets and liabilities		583	383
Losses (gains) realized on disposals of non-current assets (including investments)		(37)	(15)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		19	(48)
Change in employee benefits		(95)	204
Change in inventories		(124)	107
Change in trade receivables and net amounts due from customers on construction contracts		131	(335)
Change in trade payables		(496)	(808)
Net change in current income tax receivables/payables		(30)	(190)
Net change in miscellaneous receivables/payables and other assets/liabilities		(166)	(889)
Cash flows from (used in) operating activities	**(a)**	**6,290**	**4,557**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(1,309)*	*(1,249)*
Purchase of tangible assets on an accrual basis		*(1,881)*	*(1,689)*
Total purchase of intangible and tangible assets on an accrual basis		(3,190)	(2,938)
Change in amounts due to fixed asset suppliers		*(536)*	*(633)*
Total purchase of intangible and tangible assets on a cash basis		(3,726)	(3,571)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(20)	(3)
Acquisitions/Disposals of other investments		(1)	(35)
Change in financial receivables and other financial assets		(471)	(86)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		51	142
Proceeds from sale/repayment of intangible, tangible and other non-current assets		412	47
Cash flows from (used in) investing activities	**(b)**	**(3,755)**	**(3,506)**
Cash flows from financing activities:			
Change in current financial liabilities and other		448	1,245
Proceeds from non-current financial liabilities (including current portion)		2,445	1,659
Repayments of non-current financial liabilities (including current portion)		(4,986)	(4,915)
Consideration paid for equity instruments		-	-
Share capital proceeds/reimbursements (including subsidiaries)		-	67
Dividends paid		(1,326)	(1,061)
Changes in ownership interests in consolidated subsidiaries		(155)	-
Cash flows from (used in) financing activities	**(c)**	**(3,574)**	**(3,005)**
Cash flows from (used in) discontinued operations/non-current assets held for sale	**(d)**	**-**	**-**
Aggregate cash flows	**(e=a+b+c+d)**	**(1,039)**	**(1,954)**
Net cash and cash equivalents at beginning of the period	**(f)**	**5,282**	**5,484**
Net foreign exchange differences on net cash and cash equivalents	**(g)**	(132)	83
Net cash and cash equivalents at end of the period	**(h=e+f+g)**	**4,111**	**3,613**

Additional Cash Flow Information

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010
Income taxes (paid) received	(701)	(683)
Interest expense paid	(2,273)	(2,338)
Interest income received	845	837
Dividends received	1	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010
Net cash and cash equivalents at beginning of the period:		
Cash and cash equivalents - from continuing operations	5,526	5,504
Bank overdrafts repayable on demand – from continuing operations	(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	-	-
	5,282	**5,484**
Net cash and cash equivalents at end of the period:		
Cash and cash equivalents - from continuing operations	4,142	3,818
Bank overdrafts repayable on demand – from continuing operations	(31)	(206)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	-	1
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	-	-
	4,111	**3,613**

Changes in equity from January 1, to September 30, 2010

(millions of euros)	Equity attributable to owners of the Parent								Equity attributable to Non-controlling interests	Total equity
	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for 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, including profit (loss) for the period	Total		
Balance at December 31, 2009	**10,585**	**1,689**	**(4)**	**(494)**	**983**	**(110)**	**13,303**	**25,952**	**1,168**	**27,120**
Changes in equity during the period:										
Dividends							(1,029)	**(1,029)**	(34)	**(1,063)**
Total comprehensive income (loss) for the period			24	73	268	12	1,819	**2,196**	173	**2,369**
Issue of equity instruments	15	8					7	**30**		**30**
Effect of Telecom Italia Media capital operation							3	**3**	44	**47**
Other changes							19	**19**	(4)	**15**
Balance at September 30, 2010	**10,600**	**1,697**	**20**	**(421)**	**1,251**	**(98)**	**14,122**	**27,171**	**1,347**	**28,518**

Changes in equity from January 1, to September 30, 2011

(millions of euros)	Equity attributable to owners of the Parent: Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for 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, including profit (loss) for the period	Total	Equity attributable to Non-controlling interests	Total equity
Balance at December 31, 2010	**10,600**	**1,697**	**(7)**	**(284)**	**1,401**	**(1)**	**15,413**	**28,819**	**3,736**	**32,555**
Changes in equity during the period:										
Dividends							(1,184)	**(1,184)**	(73)	**(1,257)**
Total comprehensive income (loss) for the period			6	297	(469)		(1,206)	**(1,372)**	28	**(1,344)**
Bonus increase in share capital to service the "Broad-based Employee Share Ownership Plan"	4						(4)	**-**		**-**
Issue of equity instruments							3	**3**		**3**
Effect of capital operations of Brazil BU companies							31	**31**	(31)	**-**
Effect of increase in economic interest in Argentina BU							(39)	**(39)**	(114)	**(153)**
Other changes							10	**10**	4	**14**
Balance at September 30, 2011	10,604	1,697	(1)	13	932	(1)	13,024	26,268	3,550	29,818

Highlights – The Business Units of the Telecom Italia Group

The highlights of the Telecom Italia Group are presented in this Interim Management Report based on the following operating segments:

- Domestic Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (international wholesale) as well as the relative support activities;
- Brazil Business Unit: includes mobile (TIM Brasil) and fixed (Intelig) telecommunications operations in Brazil;
- Argentina Business Unit: comprises fixed (Telecom Argentina) and mobile (Telecom Personal) telecommunications operations in Argentina, and mobile (Núcleo) telecommunications operations in Paraguay;
- Media Business Unit: includes television network operations and management;
- Olivetti Business Unit: includes manufacturing operations for digital printing systems, office products and Information Technology services;
- Other Operations: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

The disclosure by operating segment is as follows:

	Revenues		EBITDA		EBIT		Capital expenditures		Headcount at period-end (number)	
(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	9 months to 9/30/2011	9 months to 9/30/2010	9 months to 9/30/2011	9 months to 9/30/2010	9 months to 9/30/2011	9 months to 9/30/2010	9/30/2011	12/31/2010
Domestic	14,098	15,032	6,993	7,210	850	4,038	2,015	2,153	56,700	56,530
Brazil	5,395	4,498	1,444	1,281	683	332	807	741	10,223	10,114
Argentina	2,324	-	759	-	378	-	331	-	16,249	15,650
Media	170	177	27	10	(16)	(35)	32	37	826	777
Olivetti	226	259	(36)	(24)	(40)	(27)	4	4	1,090	1,090
Other Operations	2	64	(11)	(3)	(11)	(19)	1	3	38	39
Adjustments and Eliminations	(156)	(131)	(1)	1	3	15	-	-	-	-
Consolidated total	**22,059**	**19,899**	**9,175**	**8,475**	**1,847**	**4,304**	**3,190**	**2,938**	**85,126**	**84,200**

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

	9/30/2011	12/31/2010	9/30/2010
DOMESTIC FIXED			
Fixed-line network connections in Italy at period-end (thousands)	16,959	17,609	17,881
Physical accesses (Consumer + Business) at period-end (thousands)	14,827	15,351	15,584
Broadband accesses in Italy at period-end (thousands)	9,072	9,058	9,034
of which retail accesses (thousands)	*7,141*	*7,175*	*7,186*
Virgilio average daily page views during period (millions)	46.5	45.5	44.3
Virgilio average daily single visitors (millions)	4.1	3.7	3.6
Network infrastructure in Italy:			
access network in copper (millions of km – pair, distribution and connection)	112.0	111.7	110.5
access and carrier network in optical fiber (millions of km - fiber)	4.4	4.3	4.1
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,000	7,000	7,000
South America (km of fiber)	30,000	30,000	30,000
Total traffic			
Minutes of traffic on fixed-line network (billions)	80.9	121.5	91.0
Domestic traffic	69.4	104.1	77.6
International traffic	11.5	17.4	13.4
DOMESTIC MOBILE			
Number of lines at period-end (thousands)	31,679	31,018	30,632
Change in lines (%)	2.1	0.5	(0.7)
Churn rate (%) (1)	16.4	22.0	16.8
Total outgoing traffic per month (millions of minutes)	3,619	3,305	3,204
Total average outgoing and incoming traffic per month (millions of minutes)	4,825	4,597	4,501
Average monthly revenues per line (in euros) (2)	17.5	19.7	20.0
BRAZIL			
Number of lines at period-end (thousands)	59,197	51,015	46,934
ARGENTINA (*)			
Number of fixed lines at period-end (thousands	4,132	4,107	4,087
Number of mobile lines at period-end (thousands	19,863	18,212	17,843
Broadband accesses at period-end (thousands)	1,505	1,380	1,330
MEDIA			
La7 audience share Free to Air (analog mode) (average during period, in %)	3.7	3.1	3.0
La7 audience share Free to Air (analog mode) (average of last month of period, in %)	4.2	3.3	3.7

(1) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
(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.
(*) The operating data of the Argentina Business Unit for the first nine months of 2010 is presented only for illustration purposes. The Argentina Business Unit has been consolidated by the Telecom Italia Group since October 13, 2010.

The Business Units of the Telecom Italia Group

Domestic

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

▸ The structure of the Business Unit

The Domestic Business Unit is organized as follows:

DOMESTIC

CORE DOMESTIC (*)

- Consumer
- Business
- Top
- National Wholesale
- Other (support structures)

INTERNATIONAL WHOLESALE

- Telecom Italia Sparkle Group
  - Telecom Italia Sparkle S.p.A.
  - Lan Med Nautilus Group

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

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

- **Core Domestic:** includes all telecommunications activities inherent to the Italian market. Revenues indicated in the following tables are divided according to the net contribution of each market segment to the CGU's results, excluding infrasegment transactions. The sales market segments defined on the basis of the "customer centric" organizational model are as follows:
  - **Consumer:** comprises the aggregate of voice and internet services and products managed and developed for persons and families in the fixed and mobile telecommunications markets, from public telephony to the web portal/services of the company Matrix.
  - **Business:** is constituted by the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHOs (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top:** 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):** includes:
    - Technology & IT: services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery and assurance processes regarding clientele services in addition to the development and operation of information services;
    - Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.
- **International Wholesale:** International Wholesale includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and

multinational companies through its own networks in the European, Mediterranean and South American markets.

▸ Main operating and financial data

Key results of the Domestic Business Unit for the third quarter and first nine months of 2011, overall and by segment of clientele / business area, compared with the corresponding periods of 2010 are presented in the following tables:

Domestic Business Unit

(millions of euros)	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	9 months to 9/30/2011 (c)	9 months to 9/30/2010 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	4,742	4,941	14,098	15,032	(4.0)	(6.2)	(5.7)
EBITDA	2,446	2,290	6,993	7,210	6.8	(3.0)	(4.9)
EBITDA margin	*51.6*	*46.3*	*49.6*	*48.0*	*5.3 pp*	*1.6 pp*	*0.4 pp*
EBIT	1.536	1.280	850	4.038	20.0	(78.9)	(4.2)
EBIT margin	*32.4*	*25.9*	*6.0*	*26.9*	*6.5 pp*	*(20.9) pp*	*0.5 pp*
Capital expenditures	657	666	2,015	2,153	(1.4)	(6.4)	
Headcount at period-end (number)			56,700	(*) 56,530		0.3	

(*) Headcount at December 31, 2010.

Core Domestic

(millions of euros)	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	9 months to 9/30/ 2011 (c)	9 months to 9/30/2010 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	4,497	4,688	13,450	14,251	(4.1)	(5.6)	(5.4)
Consumer	*2,323*	*2,419*	*6,848*	*7,360*	*(4.0)*	*(7.0)*	*(6.5)*
Business	*799*	*856*	*2,457*	*2,640*	*(6.7)*	*(6.9)*	*(6.9)*
Top	*794*	*829*	*2,412*	*2,537*	*(4.2)*	*(4.9)*	*(4.9)*
National Wholesale	*522*	*518*	*1,576*	*1,546*	*0.8*	*1.9*	*1.9*
Other	*59*	*66*	*157*	*168*	*(10.6)*	*(6.5)*	*(6.5)*
EBITDA	2,386	2,214	6,818	6,987	7.8	(2.4)	(4.5)
EBITDA margin	*53.1*	*47.2*	*50.7*	*49.0*	*5.9pp*	*1.7pp*	*0.5pp*
EBIT	1,510	1,215	763	3,887	24.3	(80.4)	(3.3)
EBIT margin	*33.6*	*25.9*	*5.7*	*27.3*	*7.7pp*	*(21.6)pp*	*0.6pp*
Capital expenditures	642	648	1,982	2,108	(0.9)	(6.0)	
Headcount at period-end (number)			55,673	(*)55,475		0.4	

(*) Headcount at December 31, 2010.

(millions of euros)	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/ 2011	9 months to 9/30/2010	Change %		
	(a)	(b)	(c)	(d)	(a/b)	(c/d)	Organic (c/d)
Revenues	369	402	1,011	1,207	(8.2)	(16.2)	(13,3)
of which third party	*259*	*280*	*690*	*861*	*(7.5)*	*(19.9)*	*(14,2)*
EBITDA	63	78	184	228	(19.2)	(19.3)	(17,5)
EBITDA margin	*17.1*	*19.4*	*18.2*	*18.9*	*(2.3)pp*	*(0.7)pp*	*(0,9)pp*
EBIT	28	65	89	149	(56.9)	(40.3)	(32,1)
EBIT margin	*7.6*	*16.2*	*8.8*	*12.3*	*(8.6)pp*	*(3.5)pp*	*(2,4)pp*
Capital expenditures	14	18	33	47	(22.2)	(29.8)	
Headcount at period-end (number)			1,027	(*) 1,055		(2.7)	

(*) Headcount at December 31, 2010.

Revenues

Except for National Wholesale, all segments during the period displayed a contraction in revenues but affirm a progressive recovery during the course of year thanks to the growth of the Mobile customer base, a curbing of the loss of Fixed Accesses and the effectiveness of the new offering policies both in terms of the stabilization of prices and the development of new services (Broadband and ICT). More to the point:

- **Consumer:** the reduction in revenues of the Consumer segment is 512 million euros (-7.0%) compared with the first nine months of 2010. The reduction in organic revenues is 477 million euros (-6.5%) and confirms the trend of recovery already observed in the previous quarter (-4.0% in the third quarter compared with -6.4% in the second and–9.2% in the first). It should be noted that organic revenues excluded 35 million euros of revenues in the second quarter of 2010 relating to the termination of the "1001TIM" loyalty program which had resulted in the recognition of revenues from previously deferred award credits, as they had not been used by the customer. The organic shrinkage can be entirely traced to revenues from services (-505 million euros, -7.0%, -4.6% in the third quarter). This contraction is attributable to traditional voice services, both Mobile and Fixed, that were only partly offset by higher Mobile Internet revenues (+53 million euros, +16% compared with the same period of the prior year; +23.7% for the third quarter);
- **Business**: for the first nine months of 2011, the Business segment shows a reduction in revenues of 183 million euros and a trend of progressive recovery since the beginning of the year (–6.9% compared with -7.1% recorded in the firt half of 2011). This decline is mostly in reference to the Mobile component and traditional Fixed-line voice services, with the latter, in particular, attributable to an erosion of the customer base (-5.2% compared with September 30, 2010).
- **Top:** the reduction in revenues for the first nine months of 2011 by the Top segment is 125 million euros (-4.9%) compared with the same period of the prior, gaining in the third quarter (-4.2% compared with -4.9% in the second quarter and -5.8% in the first). Such reduction principally refers to revenues from services (-107 million euros, -4.8%), recovering in the third quarter (-3.3% compared with -3.8% in the second quarter and -7.1% in the first quarter of 2011), particularly thanks to the growth in Mobile Broadband and fixed ICT.
- **National Wholesale:** the increase in the revenues of National Wholesale (+30 million euros, +1.9%) is generated by the growth of the customer base of OLOs (Other Licensed Operators) regarding services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

International Wholesale Revenues

For the first nine months of 2011, International Wholesale (the Telecom Italia Sparkle Group) reported revenues of 1,011 million euros, down 196 million euros (-16.2%) compared with the same period of 2010. Such decline is almost entirely due to voice services (-171 million euros, -20%), which are penalized 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.

Moreover, revenues for the first nine months of 2010 included 29 million euros generated by the subsidiary Elettra which was sold in September 2010.

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

(millions of euros)	9 months to 9/30/2011			9 months to 9/30/2010			Change %		
Market segment	**Total**	Fixed(*)	Mobile(*)	**Total**	Fixed(*)	Mobile(*)	**Total**	Fixed(*)	Mobile(*)
Consumer	6,848	3,297	3,676	7,360	3,523	3,999	(7.0)	(6.4)	(8.1)
Business	2,457	1,647	841	2,640	1,747	928	(6.9)	(5.7)	(9.4)
Top	2,412	1,863	615	2,537	1,948	660	(4.9)	(4.4)	(6.8)
National Wholesale	1,576	2,276	121	1,546	2,181	183	1.9	4.4	(33.9)
Other	157	152	33	168	148	52	(6.5)	2.7	(36.5)
Total Core Domestic	**13,450**	**9,235**	**5,286**	**14,251**	**9,547**	**5,822**	**(5.6)**	**(3.3)**	**(9.2)**
International Wholesale	1,011	1,011		1,207	1,207		(16.2)	(16.2)	
Eliminations	*(363)*	*(206)*		*(426)*	*(238)*		*(14.8)*	*(13.4)*	
Total Domestic	**14,098**	**10,040**	**5,286**	**15,032**	**10,516**	**5,822**	**(6.2)**	**(4.5)**	**(9.2)**

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

Fixed-line Telecommunications Revenues

For the first nine months of 2011, fixed-line telecommunications revenues amount to 10,040 million euros, decreasing 476 million euros (-4.5%) compared with the same period of the prior year. Such contraction is largely attributable to the reduction in Retail accesses, which at the end of September 2011 total about 15 million lines (-3.4% compared with December 31, 2010, -4.9% compared with September 30, 2010). Specifically, this declining trend, recorded in general, however, in all markets, slowed down in the third quarter compared with previous quarters (-135 thousand lines in the third quarter of 2011 compared with -183 thousand lines in the second and–206 thousand in the first) thanks to sales policies aimed at maintaining and recapturing customers. In contrast, as concerns Broadband services, sales are basically stable thanks to a customer portfolio which remains more or less steady in a difficult market scenario which highlights fierce competition and progressive signs of saturation. The total Broadband portfolio is equal to 9.1 million accesses (+14 thousand accesses compared with December 31, 2010), of which Retail accesses are 7.1 million (with a market share stabilized at around 54% after a period of continuous dilution) and Wholesale accesses of 1.9 million.

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

(millions of euros)	9 months to 9/30/2011	% of total	9 months to 9/30/2010	% of total	Change amount	%
Retail voice	4,261	*42.4*	4,613	*43.9*	(352)	(7.6)
Internet	1,267	*12.6*	1,317	*12.5*	(50)	(3.8)
Business Data	1,143	*11.4*	1,146	*10.9*	(3)	(0.3)
Wholesale	3,090	*30.8*	3,136	*29.8*	(46)	(1.5)
Other	279	*2.8*	304	*2.9*	(25)	(8.2)
Total Fixed-line Telecommunications Revenues	**10,040**	***100.0***	**10,516**	***100.0***	**(476)**	**(4.5)**

Mobile Telecommunications Revenues

Although there is still a contraction in terms of sales, the mobile sector displays a structural improvement in sales performance which confirms the merit of the repositioning strategy adopted for the mobile business: the customer base, in fact, grew by almost 661,000 lines from the end of 2010 to about 31.7 million, with a churn rate equal to 16.4% at September 30, 2011, down from 16.8% in the same period of 2010.

Mobile telecommunications revenues total 5,286 million euros for the first nine months of 2011, decreasing 536 million euros compared with the same period of 2010 (-9.2%, -8.7% in organic terms) with a progressive and constant improving trend (-6.5% in the third quarter compared with -7.6% in the second and -12% in the first quarter of 2011). Revenues from services show an organic change of -9.3% compared with the corresponding period of the prior year (-7.5% in the third quarter of 2011 compared with -8.7% in the second and -11.7% in the first).

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

(millions of euros)	9 months to 9/30/2011	% of total	9 months to 9/30/ 2010	% of total	Change amount	Change %
Outgoing voice	2,723	*51.5*	3,069	*52.7*	(346)	(11.3)
Incoming voice	871	*16.5*	1,047	*18.0*	(176)	(16.8)
VAS	1,503	*28.4*	1,536	*26.4*	(33)	(2.1)
Handsets	189	*3.6*	170	*2.9*	19	11.2
Total Mobile Telecommunications Revenues	**5,286**	***100.0***	**5,822**	***100.0***	**(536)**	**(9.2)**

EBITDA

EBITDA of the Domestic Business Unit is 6,993 million euros for the first nine months of 2011, down 217 million euros compared with the corresponding period of 2010 (-3.0%). The EBITDA margin is 49.6% and is an improvement over the first nine months of 2010 (+1.6 percentage points). EBITDA is impacted by the contraction in revenues (-934 million euros compared with the same period of 2010) which was only partly offset by selective control over fixed costs which has secured a significant cut and reduction of these costs (total costs -717 million euros, of which -418 million euros is net of cost of sales and the share of interconnection costs).

Organic EBITDA for the first nine months of 2011 is 7,069 million euros (-368 million euros, -4.9% compared with the first nine months of 2010), with an organic EBITDA margin equal to 50.1%, improving slightly over the same period of 2010 (+0.4 percentage points). In particular, in the third quarter (and in the second quarter) profitability shows an improvement, with a considerable decline from the negative trend compared with 2010: -2.5% in the third quarter of 2011 (-64 million euros), compared with -4.8% in the second (-117 million euros) and -7.6% in the first (-187 million euros).

In detail:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/ 2010	Change
Historical EBITDA	**6,993**	**7,210**	**(217)**
Exchange rate effect		(4)	4
Changes in the scope of consolidation		(6)	6
Non-organic (income) expenses	**76**	**237**	**(161)**
Non-organic revenues	-	*(35)*	*35*
Disputes and settlements (*)	*36*	*5*	*31*
Expenses for mobility under Law 223/91	*2*	*240*	*(238)*
Other	*38*	*27*	*11*
Comparable EBITDA	**7,069**	**7,437**	**(368)**

(*) The amount at September 30, 2011 includes expenses of 21 million euros for compensation due on the early termination of the Competence Center contract with Telecom Italia Media.

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

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/ 2010	Change
Acquisition of goods and services	4,925	5,251	(326)
Employee benefits expenses	2,205	2,587	(382)
Other operating expenses	509	413	96

In particular:

- *acquisition of goods and services:* shrunk 326 million euros (-6.2%) compared with the same period of 2010. Such contraction 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 functioning costs;
- *employee benefits expenses*: fell 382 million euros compared with the corresponding period of 2010, of which -144 million euros is attributable mostly to the reduction in the average headcount of the salaried workforce (-3,963 persons compared with September 30, 2010, of whom -1,484 persons are under "solidarity contracts" at Telecom Italia S.p.A. and Shared Service Center S.r.l.). It should be noted that employee benefits expenses in 2010 included a total of 240 million for the start by the Parent, Telecom Italia, of the mobility procedure under Law 223/91 and follows the August 4, 2010 Agreement signed with the labor unions. In August 2011, 2 million euros was added to the provision for mobility under Law 223/91 of SSC set up in November 2010 following the November 16, 2010 agreement signed with the labor unions;
- *other operating expenses:* rose 96 million euros compared with the same period of 2010, mainly on account of the increase in expenses in connection with the credit management of the Business clientele, provision charges and expenses for penalties which include 21 million euros for the early termination of the Competence Center contract with Telecom Italia Media. Details are as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/ 2010	Change
Writedowns and expenses in connection with credit management	260	224	36
Provision charges	49	33	16
Telecommunications operating fees and charges	44	40	4
Indirect duties and taxes	73	75	(2)
Penalties	53	19	34
Sundry expenses	30	22	8
Total	**509**	**413**	**96**

▸ EBIT

EBIT is 850 million euros for the first nine months of 2011, decreasing 3,188 million euros. EBIT particularly comprises the goodwill impairment charge of the Core Domestic Cash-generating unit of 3,182 million euros, recorded in the first half.

The organic change in EBIT is a negative 180 million euros (-4.2% compared with the first nine months of 2010, -6% against the second quarter and -8.5% against the first quarter); the organic EBIT margin is 28.9% (28.4% for the first nine months of 2010).

In detail:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/ 2010	Change
Historical EBIT	**850**	**4,038**	**(3,188)**
Exchange rate effect		(2)	2
Differences in the scope of consolidation		(2)	2
Non-organic (income) expenses	**3,222**	**218**	**3,004**
Non-organic expenses already described under EBITDA	*76*	*237*	*(161)*
Core Domestic CGU goodwill impairment charge	*3,182*	*-*	*3,182*
(Gains)/losses on non-current assets and investments	*(36)*	*(19)*	*(17)*
Comparable EBIT	**4,072**	**4,252**	**(180)**

In particular, with reference to the goodwill impairment charge of the Core Domestic CGU, the impairment test on the recoverability of the value of goodwill, carried out in drawing up the Half-year Financial Report at June 30, 2011, will be carried out concurrently with the preparation of the 2011 annual financial statements, also on the basis of the flows anticipated from the new Business Plan 2012 – 2014, which will be approved shortly.
In particular, concerning internal factors, the trend of the Telecom Italia Group's ordinary operations for the third quarter of 2011 was in line with the targets announced to the market and used as the basis for the impairment test at June 30, 2011. As for external factors, owing to the situation of extreme uncertainty and volatility regarding the macroeconomic scenario and financial markets, it is believed that stock prices and other indicators from external sources do not constitute today a clear and significant indicator which might prompt the repetition of the impairment test.

▸ Capital expenditures

Capital expenditures total 2,015 million euros, decreasing 138 million euros compared with the first nine months of 2010, principally due to lower IT investments and Service Creation. The percentage of capital expenditures to revenues is 14.3% (a percent basically in line with that of the first nine months of 2010).

▸ Headcount

Headcount is 56,700 at September 30, 2011, with an increase of 170 compared with December 31, 2010; the figure includes 4 persons with temp work contracts (8 at December 31, 2010).

▸ Commercial developments

CONSUMER

In the third quarter of 2011, sales actions in the mobile services market focused on the acquisition of new lines by pushing the plans of the **Tutto Compreso Ricaricabile** range. This was enhanced by the addition of the option offering **unlimited calls towards a TIM number of the customer's choice**, and – continuing the action of previous months – on the MNP (mobile number portability) promotion **Passa a TIM e Raddoppi le Ricariche.** Greater effort was devoted to the target of younger customers with the launch of the **TIM Young** plan. Work continued to rationalize the TIMCard Etniche range of products, with the addition of the new "TIM Card International Limited Edition". High-value customers were also targeted with the **Tutto Compreso** range for subscribers and prepaid customers. Furthermore, for customers wishing a package including a Smartphone and Internet, the new **TuttoSmartphone** product range was launched, which includes unlimited Internet access and a brand new Smartphone starting from 10 euros/month.
The portfolio of plans for mobile Internet from a PC continues to concentrate on the competitive advantage of the **Internet Pack** range, which, from March onwards, was enhanced by the **Internet Pack senza limiti** plan. The mobile Internet plan for **Tablets** was also enhanced with the **Internet Senza Limiti** plan, available for products on the TIM price list and for the Apple iPad, which can be purchased at TIM points-of-sale with the **Tutto Tablet** formula, allowing people to pay by installments. The plan portfolio for

mobile Internet access has been streamlined to ensure greater transparency for customers, with the relaunch of the TIMx Smartphone senza limiti plan (2.5 euros/week for 250 MB of Internet access).
During the summer there were several seasonal promotion campaigns: Carta Vacanze, Summer Edition Internet Pack senza limiti and Promo internet estate with free surfing of the Internet throughout the summer for new TIM Smartphone customers.
In July, Telecom Italia, together with other mobile telephone service operators, launched MobilePay, a unique shared platform, to pay digital content and services using phone credit. The TIM Pocket application was also launched, aimed mainly at customers with 2-G devices who are not able to surf the Internet. Following an agreement with a leading Italian publisher, during the summer, Telecom Italia was able to offer free content in promotion (reading newspapers online, access to the mobile website) to customers who had purchased products (tablets, smartphones or Internet keys), or Internet plans, with the aim of encouraging people to adopt innovative products and services.
With regard to landline phone services, the streamlining process begun in 2010 continues. In July, Telecom Italia was one of the first operators in Europe, with regard to conventional rates for calls between fixed lines, to eliminate the distinction between full rates and reduced rates according to time bands, for both local and long-distance calls, thus permitting customers to benefit from a fixed price 24 hours a day 7 days a week.
In the third quarter, efforts continued to promote the Superinternet option – successfully launched in April – making it possible to satisfy the growing demand of broadband customers in terms of download and, more particularly, upload.
Telecom Italia's range of content was enhanced by Cubomusica, a service that offers music in streaming online, with a catalog of more than 4.5 million tracks resulting from the partnership created with leading recording companies. The service was launched in February 2011 for ADSL customers with a free-trial offer; from June onwards customers paid for the service. On October 9, Cubomusica was also launched on the mobile phone service.

BUSINESS

As regards the Business market, in the third quarter of 2011, various initiatives were launched with the aim of increasing commercial presence both in the fixed and mobile segments.
In particular, in the fixed segment, promotions were introduced – directed at both new customers and Telecom Italia customers – which combine the removal of the connection fee and free broadband access for between three and six months. What's more, the range of premium phone-data bundle packages (the Tuttocompreso profiles) was strengthened. In addition to RTG access, these include unlimited calls towards the national fixed phone network, unlimited ADSL connectivity, free installation and top assistance services.
In the mobile segment, the new "+50%" packages were announced, summer promotions on all the bundle packages which, for the same price, increase the customer's bundle of free minutes by 50%. The range of flexible consumption packages (Flex profiles) was also extended, with proposals offering discounts on roaming rates.

TOP CLIENTS

For the third quarter of 2011, the TOP Clients segment further strengthened its range of ICT and Mobile services, focusing particularly on Cloud solutions for infrastructures and applications.
With reference to ICT services, integration continues within Nuvola Italiana: for the IT Infrastructures segment, after the launch in the first half of the year of the hosting service known as Ospit@ Virtuale and the Nuvola IT Data Space solution for supplying storage space as a Cloud service, the product range was enhanced by Nuvola IT Virtual Desktop with the idea of making workstations virtual. With regard to applications for IT solutions, after the launch of Cloud-CRM (Customer Relationship Management), the package was extended by the addition of Nuvola-IT Fast Start, devoted to the SME segment, which distributes Business Intelligence, CRM and ERP (Enterprise Resource Planning) services. Energy Management packages were also completed with the upgrade of Nuvola IT Energreen, devoted to the management of problems associated with intelligent energy consumption, and Nuvola IT Ready Contact for multi-channel Contact Center services.

With reference to the Mobile segment, for the third quarter, various VAS mobile "Cloud oriented" packages were launched. In particular, in addition to enhancing consolidated solutions like the mobile device management service and messaging services (Nuvola it Smash), the **Nuvola It M2M Power** platform was introduced to manage SIM M2M through the Internet, plus the **Nuvola It APN Shared** service which enables SIM M2M to access Internet and the customer's Intranet in a secure, controlled way.

In response to the increasing spread of Tablets and Smartphones, a catalog of Mobile Apps has been devised with the aim of making various corporate applications available from a mobile phone. The above-mentioned initiatives are part of a more far-reaching review of the offering, which includes the renewal of the voice profiles for Subscriber and for Business rechargeable lines, the revisions of the national mobile data plans and an update of the Roaming product range.

PUBLIC SECTOR

During the third quarter of 2011, the Public Sector segment saw gradual consolidation taking place in the core TLC sector as a result of the activation of a new Consip agreement for Fixed Telephony and IP connectivity services. In fact, this agreement includes all the classic services of Fixed telephony and Broadband Connectivity, from simple ADSL access to fiber optic connectivity. Some value-added services have also been launched such as Telephony over IP, e-mail management and Internet security.

Within the sphere of Mobile services, during the quarter, the size of the mobile phone segment was consolidated as a result of marketing the services included in the Consip Mobile 5 agreement. This made it possible to reach 75% of the estimated maximum lines, approximately three months sooner than anticipated.

Still in the sphere of Mobile telephony, new value-added services were launched called **Push Mail** and **Messaggistica** which will enable an important upselling on the Customer Base.

Work continues to complete the vertical offerings for the Public Sector in three main areas:

- **Digital Territory** with the introduction of Smart Town applications for the remote control and monitoring of energy consumption of street-lighting networks in the Telecom Italia Cloud;
- **Digital Bureaucracy** with the launch of an Internet platform to manage content regarding standards and laws;
- **Digital Healthcare** with the introduction of new applications for the remote monitoring of clinical data from Smart Phones and Tablets.

The offering of the Public Sector also extends to schools through the start-up of the **Scuole in WiFi** project, which is directed towards all the various levels and kinds of state schools in Italy. The project involves the supply of standard technologies for creating WiFi connectivity networks in schools, with the aim of allowing new technologies and contents to be used in the classroom and simplifying communication with pupils' families.

▸ Principal changes in the regulatory framework

Wholesale fixed markets

Wholesale access services

With Decision 578/10/CONS dated November 11, 2010, AGCom set the new rates for wholesale access services to Telecom Italia's fixed network (unbundling, bitstream and WLR) and the calculation of WACC, both applicable for the period May 1, 2010 –December 31, 2012. As concerns WACC to be applied to Telecom Italia's wholesale access services, the value has been set at 9.36%.

In particular, for the unbundling charge, AGCom has set the following values: 8.70 euros per month from May 1, 2010, 9.02 euros per month from January 1, 2011 and 9.28 euros per month from January 1, 2012. Telecom Italia has been authorized by AGCom (Decision 71/11/CONS) to apply the price changes for the year 2011.

Wholesale origination, termination and call transit

In April 2011, AGCom published the final regulation for setting the 2011 prices (Decision 229/11/CONS) of wholesale origination, local transit, termination on the Telecom Italia network and termination on the network of another operator (reverse), confirming the same price levels as 2010. Specifically concerning the termination service on the networks of alternative operators, AGCom has decided to postpone the application of the symmetric termination prices to 2012, equal to Telecom

Italia's local telephone exchange rate (SGU-Urban Group Stage), between alternative infrastructured operators and Telecom Italia itself. Beginning 2013, AGCom has decided that Telecom Italia and the OLOs will offer only IP interconnection with a single rate, resulting from the BU-LRIC (Bottom-Up Long Range Incremental Cost) model which will be developed consistently with the EU Recommendation 2009/396/EC on termination rates. In the early days of June, Telecom Italia filed additional grounds to its appeal to TAR (Regional Administrative Court) against Decision 179/10/CONS which fixes the 2010 reverse termination price equal to Telecom Italia's SGT level, despite the fact that the OLOs are interconnected at the SGU level for the termination of calls on the Telecom Italia network. With these additional grounds, Telecom Italia asks for the annulment also of Decision 229/11/CONS which, for 2011, still calls for asymmetric prices for alternative infrastructured operators. The discussion on the appeals to TAR has been moved to November 17, 2011.

New Generation Networks

On September 23, 2010, with Decision 498/10/CONS, AGCom introduced the procedure concerning the regulation of access services to next generation networks.

The decision to launch the procedure arises from the dispositions in paragraph 7 of art. 73 of Decision 731/09/CONS which states that "after the approval of the European Commission's Recommendation on NGA networks, (omissis*)*, the Authority will review the terms for NGA access services included in this regulation". With Decision 301/11/CONS of May 2011, AGCom has therefore launched the public consultation concerning the new regulation of access to next generation networks. AGCom is expected to issue its final decision by November 2011.

Change of operator from the fixed network

On July 8, 2011, AGCom decision 62/11/CIR was published in reference to the increase of the thresholds for the migration processes. The decision particularly provides for an increase of 60% in the operators' capacity to clear the migration requests and, beginning August 7, within three months of the date of publication of the decision, AGCom will check to see if this increase is considered sufficient.

Wholesale mobile markets

Termination on the mobile network

The public consultation (Decision 254/11/CONS) launched by AGCom concerning the review and updating of the glide path for maximum voice termination rates on single mobile networks has been concluded. In particular, AGCom has proposed the new glide path which gives a symmetrical termination rate for all mobile operators, equal to 0.98 €cents/minute starting from January 15, 2015. Moreover, the termination rate symmetry among all the mobile operators was expected to start on January 1, 2014 contrary to what was contained in the past glide path which called for such symmetry to start on July 1, 2012. The final decision is expected in November 2011.

Retail fixed markets

Retail charge

Beginning July 1, 2011, a rate adjustment was made which consists of increasing the price of the RTG charge for Consumer clientele from 16.08 euros/month (including VAT) to 16.64 euros/month (including VAT). The last variation of the Consumer charge was made on February 1, 2009.

In line with the new charge and with AGCom regulations concerning special economic treatment, the RTG charge was modified for the less affluent classes from 8.04 euros /month (including VAT) to 8.32 euros/month (including VAT). The ISDN charge and all the charges for Business connections have instead remained unchanged.

Local, national and fixed-to-mobile retail traffic

Beginning July 1, 2011, a new rate maneuver came into effect which calls for a different breakdown of the plans according to the particular clientele segment. For the Consumer clientele, the Ora Gratis (free hour) for local calls and the Mezz'Ora Gratis (free half hour) for long-distance calls was eliminated, while at the same time the pricing scheme was simplified by introducing a flat rate (no longer differentiated by the time frame). Specifically, the new prices are equal to 0.71 €cents/minute (including VAT) for local calls and 5.04 €cents/minute (including VAT) for long distance. For both types of traffic, the set-up charge for each call is unchanged at 7.94 €cents (including VAT). As regards the Business clientele, the Ora Gratis has been eliminated for all local calls (Mezz'Ora Gratis for long-distance calls had never been introduced for this type of clientele) while domestic traffic rates (local and long-distance) have remained unchanged.

Wholesale line rental services

Concerning Wholesale Line Rental (WLR) services offered solely in Telecom Italia telephone exchange areas where local loop unbundling access services are absent, with Decision 578/10/CONS of November 11, 2010, AGCom has set the new price for the period May 1, 2010 to December 31, 2012 based on a Network Cap mechanism which replaces the previous "retail-minus" regime. In accordance with Decision 578/10/CONS, last April 11, Telecom Italia published the economic terms and conditions of the WLR service for 2011; the monthly price for a POTS line for residential customers has been set at 12.50 euros/month while that for business customers has been set at 14.87 euros/month. Beginning 2012, the WLR charges for non-residential users will be brought into line with those for residential users.

UltraBroadband offering

In order to guarantee the commercial start-up phase of Telecom Italia's retail optical fiber offering, in the transition period until completion of the regulation of next generation access networks (NGAN), AGCom, with Decision 61/11/CONS concerning Telecom Italia's retail offering, has imposed the following conditions: Telecom Italia may only offer the service in those cities in which NGAN services are already being offered by alternative operators, the number of customers is set at a maximum of 40 thousand. AGCom also approved Telecom Italia's wholesale offering based on the "retail minus" principle.

International roaming

On July 6, 2011, the European Commission published the proposed "Roaming III" Regulation which will come into force on July 1, 2012. The Regulation proposes the extension of the maximum CAP until 2016 for retail prices and until 2022 for wholesale prices, for calls, SMSs and intra-EU roaming data services. The proposal was submitted for approval to the European Parliament and the Council of Ministers of the European Union on the basis of the so-called co-decision procedure. The Regulation is expected to be approved in the second quarter of 2012.

▸ Events Subsequent to September 30, 2011

Award of LTE frequencies

On December 7, 2010, the Stability Law 2011 was approved after which AGCom and the Department of Communications began the procedures for the assignment of the user rights for the radio frequencies intended for electronic mobile broadband communication services using the 790-862 MHz band and other resources possibly available, in conformity with the Code of electronic communications.

On June 10, 2011, AGCom published Decision 282/11/CONS containing the regulation on the procedures for the release of the user rights for the frequencies 800, 1800, 2000 and 2600 MHz while the Ministry of Economic Development, in the Gazzetta Ufficiale, Issue 75, of June 27, 2011, called for bids for the assignment of the user rights to the frequencies in the same 800, 1800, 2000 and 2600 MHz bands.

The minimum auction bids for the single frequency lots are as follows:

BANDWIDTH	Minimum amount per lot (amounts in euros)
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

Telecom Italia was admitted by the Ministry of Economic Development to the presentation of the bids for the use of the frequencies.

On October 3, 2011, the Ministry of Economic Development – Communications Department, after the conclusion of the bidding procedures, informed Telecom Italia that it had won two blocks of frequencies at 800 MHz, a block of frequencies at 1800 MHz and three blocks of frequencies at 2600 MHz. The total cost is 1,223 million euros, including a discount of 38 million euros, in exchange for Telecom Italia's commitment to build over 50% of the new networks using equipment with eco-sustainable environmental features. Suitable guarantees were provided against this discount.

On October 13, 2011 Telecom Italia presented a request to the Ministry of Economic Development to pay a maximum of 456 million euros in installments. On October 26, 2011, the Ministry, in accordance with the bidding regulations and following the public hearing held at the Ministry's seat on October 25, 2011, informed Telecom Italia that it had been awarded the blocks of frequencies and, for the two lots of 800MHz, the related matching lists of municipalities. On October 28, 2011, Telecom Italia consequently paid 767 million euros and recorded a loan of 456 million euros for the installment payments, which is secured by a specific guarantee.

Brazil

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

▸ The structure of the Business Unit

The Tim Brasil group is organized as follows**:**

BRAZIL

- Tim Brasil Serviços and Participações S.A.
  - Tim Participações S.A.
    - Tim Celular S.A.
    - Intelig Telecomunicações Ltda

▸ Main operating and financial data

Key results for the third quarter and first nine months of 2011 compared with the corresponding periods of 2010 are presented in the following table:

	(millions of euros)				(millions of Brazilian reais)				Change %		
	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011	**9 months to 9/30/2010**	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	9 months to 9/30/2011 (c)	**9 months to 9/30/2010** (d)	(a/b)	(c/d)	(c/d) organic
Revenues	1,896	1,623	5,395	4,498	4,371	3,677	12,375	10,532	18.9	17.5	17.5
EBITDA	496	458	1,444	1,281	1,144	1,038	3,313	2,999	10.2	10.5	10.7
EBITDA margin	*26.2*	*28.2*	*26.8*	*28.5*	*26.2*	*28.2*	*26.8*	*28.5*	*(2.0)pp*	*(1.7)pp*	*(1.7)pp*
EBIT	243	167	683	332	560	385	1,567	778	45.4	101.4	102.4
EBIT margin	*12.8*	*10.5*	*12.7*	*7.4*	*12.8*	*10.5*	*12.7*	*7.4*	*2.3pp*	*5.3pp*	*5.3pp*
Capital expenditures	363	234	807	741	837	526	1,852	1,736	59.1	6.7	
Headcount at period-end (number)							10,223	(*) 10,114		1.1	

(*) Headcount at December 31, 2010.

Revenues

Revenues total 12,375 million reais, increasing 1,843 million reais compared with the first nine months of 2010 (+17.5%). Revenues from services for the first nine months of 2011 stand at 11,093 million reais, up from 9,945 million reais for the same period of 2010 (+11.5%), whereas revenues from the sale of products increased from 587 million reais for the first nine months of 2010 to 1,282 million reais for the first nine months of 2011 (+118.4%).
ARPU (Average Revenue Per User) in the first nine months of 2011 is 21.2 reais against 23.9 reais in the same period of 2010.
Total lines at September 30, 2011 number 59.2 million, growing 26.1% compared with September 30, 2010, corresponding to a 26.0% market share

EBITDA

EBITDA for the first nine months of 2011 is 3,313 million reais, up 314 million reais compared with the same period last year (+10.5%). The higher margin, with the percentage of commercial costs to revenues from services basically the same, required to sustain the expansion of revenues in an increasingly fiercer competitive context, is explained by operating efficiencies achieved on the front of industrial costs, employee benefits expenses and trade receivables management.

The EBITDA margin is 26.8%, down 1.7 percentage points compared with the first nine months of 2010. This result is the consequence of the market penetration strategy focusing on smartphones and webphones as a means to increase revenues from mobile data traffic and is therefore to be attributed solely to the above-mentioned growth in product sales.

The organic change in EBITDA compared with the same period of 2010 is +322 million reais, with an EBITDA margin of 26.8% (28.5% for the first nine months of 2010). Details are as follows:

(million reais)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Historical EBITDA	**3,313**	**2,999**	**314**
Other expenses	8	-	8
Comparable EBITDA	**3,321**	**2,999**	**322**

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

	(millions of euros)		(millions of Brazilian reais)		
	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	9 months to 9/30/2011 (c)	9 months to 9/30/2010 (d)	Change (c-d)
Acquisition of goods and services	3,305	2,543	7,582	5,955	1,627
Employee benefits expenses	239	211	549	494	55
Other operating expenses	526	430	1,206	1,007	199
Change in inventories	(54)	78	(125)	184	(309)

- *acquisition of goods and services:* totals 7,582 million reais (5,955 million reais for the first nine months of 2010). The increase of 27.3% compared with the first nine months of 2010 (+1,627 million reais) is the result of higher purchases of raw materials, auxiliaries, consumables and merchandise for 1,181 million reais (of which +838 million reais for handset purchases), higher outside service costs for 122 million reais, higher portion of revenues to be paid to other TLC operators for 217 million reais and higher rent and lease costs for 107 million reais;
- *employee benefits expenses:* amount to 549 million reais, increasing 55 million reais compared with the first nine months of 2010 (+11.1%). The average headcount grew from 8,668 in the first nine months of 2010 to 9,099 in the same period of the 2011. The percentage of employee benefits expenses to revenues is 4.4%, decreasing 0.3 percentage points compared with the first nine months of 2010;
- *other operating expenses:* amount to 1,206 million reais, increasing 19.8% (1,007 million reais for the first nine months of 2010). Such expenses consist of the following:

(millions of Brazilian reais)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Writedowns and expenses in connection with credit management	169	252	(83)
Provision charges	113	32	81
Telecommunications operating fees and charges	868	675	193
Indirect duties and taxes	22	24	(2)
Sundry expenses	34	24	10
Total	**1,206**	**1,007**	**199**

EBIT

EBIT is 1,567 million reais, increasing 789 million reais compared with the first nine months of 2010. This increase is due to a higher contribution by EBITDA and lower depreciation and amortization charges of 467 million reais (1,745 million reais for the first nine months of 2011, compared with 2,212 million

reais for the first nine months of 2010). In particular, the decrease in depreciation and amortization is partly due to the revision of the useful life of software (-74 million reais) carried out in 2010 and partly to the reduced use of handset subsidies during 2011.
The organic change in EBIT is a positive 797 million reais compared with the same period of 2010, with an EBIT margin of 12.7% (7.4% for the first nine months of 2010). Details are as follows:

(million reais)	9 months to 9/30/2011	9 months to 9/30/2010	Change
Historical EBIT	**1,567**	**778**	**789**
Non-organic expenses already described under EBITDA	8	-	8
Comparable EBIT	**1,575**	**778**	**797**

Capital expenditures
Capital expenditures stand at 1,852 million reais, increasing 116 million reais compared with the first nine months of 2010. The extension of the new sales strategy begun in the first half of the year and associated with the sale of handsets created a sharp reduction in the portion of subscriber acquisition costs capitalized, whereas an increase was recorded in the expenditures dedicated to network infrastructures so as to sustain the growth of voice and data traffic.

Headcount
Headcount is 10,223 at September 30, 2011, an increase of 109 compared with December 31, 2010 (10,114).

▸ Commercial developments

For the Consumer segment, regarding its voice plans, TIM has continued the campaign to strengthen the community concept through the promotion of the “Infinity” and “Liberty” plans (respectively, prepaid and postpaid plans).
TIM, in August, launched a promotional package for Father’s Day, offering the opportunity to make unlimited local and long-distance calls to TIM numbers. In addition, TIM Liberty customers were offered the possibility to communicate free of charge with SME radio service subscribers (Servico Movel Especializado, e.g. Push-To-Talk by Nextel).
Always with a view towards growing its community, TIM launched the “Infinity TRI” plan for customers residing in the state of Rio Grande do Sul, an area of enormous commercial potential. The offer is based on the new “Infinity” concept. The customer, in fact, after paying for the first call of the day can have unlimited use of the service during the course of the same day.
For data services, TIM continues the sales push with the “Infinity” and “Liberty Web” plans to increase the use of Internet Mobile services by those customers who have smartphones, tablets and notebooks. The plans extend the concept of “unlimited” traffic to Internet use.
As for Value-Added Services (VAS), TIM has contracted additional sponsorship agreements with soccer teams, linking the traditional Infinity plan to the “TIM Chip”, that is, a series of complementary free services, such as, for instance, information via text messages (SMS), ring tones and screensavers of the sponsored team.
For the Business market, TIM announced a new portfolio of plans reserved for small and medium enterprises to access Mobile Internet with the aim of encouraging its use. In particular, “Liberty Web Impresa” includes four rate plans for unlimited data traffic, one of which is exclusively for tablets, for which TIM is a pioneer on the market. On the front of voice services, a new promotion dedicated to companies was launched with discounts up to 58% on international rates compared to the standard price of the current 100 and 250 minute plans. With this plan, TIM offers a more aggressive rate plan in the market for roaming users: the lowest price per minute is associated with the best international coverage (more than 200 countries).
As for products, TIM pursues the strategy of boosting access to the Mobile Internet through the use of smartphones and webphones. TIM has reduced the price of handsets by 25% on half of its products in portfolio, including the Motorola Milestone 2 and the Motorola Mini Motokey. In July, TIM, with Motorola

Mobility, announced the sale of the Motorola Motokey XT exclusively for its customers. TIM is going forward on the path to leadership of the handset business with innovative and exclusive packages.
In the area of services for fixed lines, TIM, through Intelig, consolidates its presence in the Business market winning itself various contracts for the supply of telecommunications services such as the military games held in July.
In the third quarter, TIM began to encourage the use of its long-distance operator code "CSP 41" (Código de Seleção de Prestadoras 41) both for mobile and fixed phones with a view to returning Intelig's "CSP 23" code to Anatel in 2012. In line with this strategy, the new "Infinity 41 Fisso" promotion campaign has been launched, offering unlimited calls for national and international calls.
In the Wholesale segment, Intelig, the company responsible for providing the data transmission infrastructures for the military games held in July in Rio de Janeiro, enhanced its offering by using laser optical communication which was able to overcome the topographical problems of the state. As well as FSO Technology, the company also used fiber optic and pre-WiMAX (at 5.8 GHz) technology to bring connectivity to the venues where the international competition was held. In all, 63 Internet connection points were supplied, distributed to the competition venues, Media Centers, areas of operation and the apartments where the participants were housed. Approximately 6,000 athletes from more than 100 countries participated in the competition.
On the front of the positioning of the brand, in August, TIM launched a new advertising campaign which reinforces the concept of innovation and complete mobility. The idea behind the campaign is to show how the various packages offered by the company have revolutionized the mobile market and transformed customers' behavior.
TIM also took part in specific social campaigns, paying even greater attention to themes of sustainability and social problems, as demonstrated by its program "TIM Musica nella Scuola". The program, created in 2003, offers participants new ways of learning through the universal language of music, with the aim of stimulating the development of culture and peace. Since it was introduced, more than 20,000 pupils from state schools in 13 cities have participated in the program.

▸ Events subsequent to September 30, 2011

Increase of TIM Participações S.A. share capital

On October 27, 2011, the share capital increase of Tim Participações S.A. ended with the issue of a total 200,258,368 ordinary shares at the offering price of 8.60 reais each for a total of 1.7 billion reais (equal to about 700 million euros). Besides the 190,796,858 shares in the initial offering, there were 9,461,510 shares of the greenshoe option, completely exercised, granted by Tim Participações S.A. to Morgan Stanley S.A. and Morgan Stanley & Co. LLC, part of the placement consortium.
The Telecom Italia Group, through Telecom Italia International N.V. – the parent of the holding company Tim Brasil Serviços e Participações S.A. – subscribed to its entire share of the reserved capital increase in Tim Participações S.A. for 1.1 billion reais (equal to about 450 million euros), but was unable to subscribe to any of the shares issued following exercise of the greenshoe. Consequently, the percentage investment in Tim Participações S.A. fell to 66.68% from the previous 66.94%.

Acquisition of the AES Atimus group

On October 31, 2011, the purchase from Compagnia Brasiliana de Energia was concluded, through the subsidiary Tim Celular S.A., of the AES Atimus group, an operator in the sector of telecommunications infrastructures in the states of San Paolo and Rio de Janeiro. The price paid was about 1.5 billion reais (equal to approximately 650 million euros), which takes into account the debt position of the acquired companies. Tim Celular S.A., after the acquisition, now holds a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A..

Argentina

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora - Telecom Argentina group. Specifically, 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.

▸ The structure of the Business Unit

At September 30, 2011, the Argentina Business Unit is organized as follows:

ARGENTINA

- Sofora Telecomunicaciones S.A. (Sofora)
  - Nortel Inversora S.A.
    - Telecom Argentina S.A.
      - Micro Sistemas S.A. (*)
      - Telecom Argentina USA Inc.
      - Telecom Personal S.A.
        - Núcleo S.A. (Paraguay)
        - Springville S.A. (Uruguay)(*)

(*) Non-operating companies

▸ Main operating and financial data

The following table gives the main results reported by the Argentina Business Unit for the third quarter and the first nine months of 2011. The amounts presented include the effects of the application of the purchase price method. Specifically, in the 2010 financial statements, in conformity with the requirements of IFRS 3, all the assets and liabilities of the Sofora group were measured for their recognition at fair value at the acquisition date (October 13, 2010). In addition, goodwill was recorded, at the acquisition date, for 177 million euros; this amount was adjusted following the definitive application of the purchase price method (within 12 months of the acquisition date of control, as established by IFRS 3).

The income statement for the first nine months of 2011 thus includes the effects of such measurements and particularly the higher amortization and depreciation related thereto (equal to 650 million Argentine pesos, about 113 million euros, for the first nine months of 2011).

For a better understanding of the performance of the Argentina Business Unit, the following table presents the key results reported for the third quarter and first nine months of 2011 compared with those of the corresponding period of 2010. The restated data for the third quarter and the first nine months of 2010 are provided solely for information purposes (illustrative and comparative) since they were not included in the consolidated results of the Telecom Italia Group[1].

	(millions of euros)				(millions of Argentine pesos)					
	3rd Quarter 2011	3rd Quarter 2010	9 months to 9/30/2011	**9 months to 9/30/2010**	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	9 months to 9/30/2011 (c)	**9 months to 9/30/2010** (d)	**Change %** (a/b)	(c/d)
Revenues	813	741	2,324	2,049	4,774	3,768	13,357	10,485	26.7	27.4
EBITDA	253	237	759	689	1,487	1,202	4,363	3,524	23.7	23.8
EBITDA margin	*31.1*	*31.9*	*32.7*	*33.6*	*31.1*	*31.9*	*32.7*	*33.6*	*(0.8)pp*	*(0.9)pp*
EBIT	121	154	378	449	713	784	2,175	2,299	(9.1)	(5.4)
EBIT margin	*14.9*	*20.8*	*16.3*	*21.9*	*14.9*	*20.8*	*16.3*	*21.9*	*(5.9)pp*	*(5.6)pp*
Capital expenditures	126	113	331	309	737	578	1,904	1,583	27.5	20.3
Headcount at period-end (number) (**)							16,249	(*) 15,650		3.8

(*) Headcount at December 31, 2010.

(**) Includes employees with temp work contracts: 8 at September 30, 2011 and 18 at December 31, 2010.

(1) The average exchange rate used for the translation of the Argentine person to euros (expressed in terms of the per unit local currency per 1 euro) is equal to 5.74763 in the first nine months of 2011 and 5.11765 in the first nine months of 2010.

Revenues
Revenues for the first nine months of 2011 amount to 13,357 million pesos, increasing 2,872 million pesos (+27.4%) compared with the corresponding period of 2010 (10,485 million pesos) thanks to the growth of the broadband and mobile customer bases, in addition to the relative ARPU. Revenues for the third quarter of 2011 total 4,774 million pesos, increasing 1,006 million pesos (+26.7% compared with the corresponding period of 2010 (3,768 million pesos). The main source of revenues for the Argentina Business Unit is mobile telephony which accounts for 71% of consolidated revenues, with an increase of over 33% compared with the first nine months of 2010.

In particular, the trend of the main operating data of the Business Unit is reported in the following table:

	9/30/2011	12/31/2010	Change	
			amount	%
Fixed-line				
Lines at period-end (thousands)	4,132	4,107	25	0.6
ARBU - Average Revenue Billed per User (pesos)	45.4	42.4 (*)	3.0	7.1
Mobile				
Lines at period-end (thousands)	19,863	18,212	1,651	9.1
Telecom Personal lines (thousands)	*17,786*	*16,333*	*1,453*	*8.9*
% Postpaid lines (**)	*31%*	*30%*		*+1pp*
MOU Telecom Personal (minutes/month)	*98*	*100 (*)*	*(2)*	*(2.0)*
ARPU Telecom Personal (pesos)	*49.8*	*42.8 (*)*	*7.0*	*16.4*
Núcleo mobile lines (thousands) (***)	*2,078*	*1,878*	*200*	*10.6*
% Postpaid lines (**)	*16%*	*15%*		*+1pp*
Broadband				
Broadband accesses at period-end (thousands)	1,505	1,380	125	9.1
ARPU (pesos) (****)	85.5	74.9 (*)	10.6	14.2

(*) Data relating to the first nine months of 2010.
(**) Includes lines with a ceiling invoiced at the end of the month which can be integrated with prepaid recharges.
(***) Includes WiMAX lines.
(****) The calculation method was updated in order to exclude, from the customer base, the Keys sold to customers who already have ADSL access.

Fixed-line telephony service: the number of fixed lines at the end of the first nine months of 2011 increased slightly compared with the end of 2010, thanks mainly to the rate plans linked to internet services. Even though the fixed-line regulated services in Argentina continue to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, ARBU (Average Revenue Billed per User) grew more than 7% compared with the first nine months of 2010 due to sales of plans which include minutes of traffic and value-added services.

Mobile telephony service: Telecom Personal mobile lines in Argentina grew by 1,453 thousand compared with the end of 2010, arriving at a total of 17,786 thousand lines at September 30, 2011, 31% of which are postpaid. At the same time, thanks to high-value customer acquisitions and clear leadership in the smartphone segment, the ARPU (Average Revenue Per User) gained about 16%, exceeding 49.8 pesos (42.8 pesos in the first nine months of 2010). 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 47% of revenues from mobile telephony services in the first nine months of 2011.

In Paraguay, the Núcleo customer base grew about 11% compared with December 31, 2010 and at September 30, 2011 has 2,078 thousand lines, 16% of which are postpaid. The company holds the title of offering the best 3G internet service (in terms of speed), thus continuing in its trend of significant growth in terms of the number of lines.

Broadband: Telecom Argentina's portfolio of total broadband lines at September 30, 2011 reached 1,505 thousand accesses, with an increase of 125 thousand accesses compared with the end of 2010 and representing about 9% growth. At the same time, ARPU increased thanks to the pricing strategy which also led to the reduction of promotional discounts associated with customer acquisition and loyalty.

EBITDA

EBITDA shows an increase of 839 million pesos (+23.8%), reaching 4,363 million pesos for the first nine months of 2011. The EBITDA margin is 32.7%, down 0.9 percentage points compared with the first nine months of 2010, mainly due to higher employee benefits expenses.
EBITDA for the third quarter of 2011 is 1,487 million pesos, increasing 285 million pesos compared with the corresponding period of 2010 (1,202 million pesos).

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

	(millions of euros)		(millions of Argentine pesos)		
	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	9 months to 9/30/2011 (c)	9 months to 9/30/2010 (d)	Change (c-d)
Acquisition of goods and services	991	860	5,694	4,404	1,290
Employee benefits expenses	342	281	1,968	1,440	528
Other operating expenses	245	216	1,410	1,107	303
Change in inventories	(10)	7	(55)	35	(90)

- *acquisition of goods and services:* totals 5,694 million pesos (4,404 million pesos for the first nine months of 2010). The increase of 29% compared with the prior period (+1,290 million pesos) is mainly due to higher outside service costs for 689 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise for 547 million pesos;
- *employee benefits expenses:* stand at 1,968 million pesos, increasing 528 million pesos compared with the first nine months of 2010 (+37%). The change comes from salary increases as a result of periodical revisions in union agreements and primarily in connection with inflation. Moreover, an increase is recorded in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues is 14.7%, increasing 1 percentage point over the first nine months of 2010;
- *other operating expenses:* amount to 1,410 million pesos, increasing 27% (1,107 million pesos over the first nine months of 2010). Such expenses consist of the following:

(millions of Argentine pesos)	9 months to 9/30/2011 (a)	9 months to 9/30/2010 (b)	Change (a-b)
Indirect duties and taxes	938	760	178
Telecommunications operating fees and charges	250	195	55
Writedowns and expenses in connection with credit management	125	89	36
Sundry expenses	97	63	34
Total	**1,410**	**1,107**	**303**

EBIT

EBIT records a decline of 124 million pesos (-5.4%) to 2,175 million pesos for the first nine months of 2011. The reduction is entirely attributable to the application of the purchase price method which led to higher amortization and depreciation charges that were absent in the first nine months of 2010, for a total of 669 million pesos (about 116 million euros). Excluding such expenses, EBIT would have been higher by 545 million pesos (+23.7% compared with the first nine months of 2010), thanks to the higher contribution by EBITDA.
The EBIT margin is 16.3% and 5.6 percentage points lower than for the first nine months of 2010. Excluding the effects of the adoption of the purchase price method, the EBIT margin would have been 21.3% and therefore basically in line with the same period of the prior year.
EBIT for the third quarter of 2011 is 713 million pesos, decreasing 71 million pesos (-9.1%) compared with the corresponding period of 2010. The impact of the application of the purchase price method for the third quarter of 2011 alone is 213 million pesos.

Capital expenditures

Capital expenditures stand at 1,904 million pesos, increasing 20.3% compared with the same period of the prior year. Such amount includes 495 million pesos for the capitalization of subscriber acquisition costs for the subscription of binding 18 – 24 month contracts for mobile customers and 12 month

contracts for broadband customers (395 million pesos in the first nine months of 2010). Capital expenditures in the third quarter of 2011 total 737 million pesos, increasing 159 million pesos compared with the corresponding period of 2010 (578 million pesos).
With regard to the fixed network, capital expenditures have been directed to the expansion of the fiber optic infrastructure and the access network, the development of backhauling for mobile traffic, 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, Telecom Personal has principally invested in the 3G network to increase capacity and expand coverage as well as in the platforms to expand Value-Added Services and in IT projects. Capital expenditures by Núcleo are aimed mainly at the 3G access network.

Headcount
Headcount at September 30, 2011 is 16,249, an increase of 599 compared with December 31, 2010 (+3.8%). About 44% of the increase refers to the fixed-line sector and the remaining 56% to the mobile sector. At September 30, 2011, the Argentina Business Unit had temp work contracts for 8 persons (18 persons at December 31, 2010).

▸ Commercial developments

In the residential fixed-line telephony segment, Telecom Argentina pursued its strategy of rate plans which include subscriber charges, minutes of traffic and valued-added services, with the aim of bolstering both the demand for new accesses and the growth of the ARPU (Average Revenue Billed Per User). With regard to broadband, the bundled sales strategy has been stepped up by adding a mobile bandwidth plan and minute packages (local calls) to the fixed bandwidth plan. Concerning small and medium enterprises, the sales plan is focused on data services in order to increase the value of the customers. Also going forward is the offering of ICT convergent solutions for the corporate segment.
During the third quarter of 2011, as part of the innovation strategy, Personal presented SIM Facebook, which allows connection, through the SIM, to one of the most important social networks in the world, regardless of the handset or the customer's rate plan. Plans such as ""internet un peso al giorno" are continuing to back the use of mobile internet, which contributed to a significant increase in the spread of this service among customers.
Furthermore, in 2011, to further strengthen the Club Personal loyalty program, Telecom Personal introduced a device which, through the geo-localization model, allows its members to identify, using their handsets, all the promotions available, in order to personalize and facilitate the search. The strategy in terms of being more advantageous was also strengthened by the keeping the plan, for Club members only, of differentiated services and promotion plans.
During the third quarter 2011, Núcleo introduced promotional plans and packages, specifically targeting the prepaid segment.

Media

The Media Business Unit operating the business segments TI Media – La7, MTV Group and Network Operator. In particular:

- **TI Media – La7:** includes activities carried out by the Company relating to the television broadcasters La7 and La7d and those relating to the Multimedia/Web (La7.it and La7.tv) area. Up to September 30, 2011, the activities relating to the Digital Content for the Telecom Italia Group had also been included; this activity ended on October 1, 2011 following the early termination of the contract with Telecom Italia;
- **MTV Group:** includes activities carried out by 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 activities conducted by Telecom Italia Media Broadcasting for the operation of the analog and digital broadcasting networks of La7 and MTV and the Digital Multiplex channels operated by the Group, in addition to accessory services and radio and television broadcasting platforms offered to Group companies and third parties.

The structure of the Business Unit

The Business Unit is organized as follows**:**

MEDIA

- TI MEDIA – LA7
  - Telecom Italia Media S.p.A.
- MTV GROUP
  - MTV Italia S.r.l.
    - MTV Pubblicità S.r.l.
- NETWORK OPERATOR
  - Telecom Italia Media Broadcasting S.r.l.

Main operating and financial data

Key results for the third quarter and first nine months of 2011 compared with the corresponding periods of 2010 are presented in the following table:

(millions of euros)	3rd Quarter 2011 (a)	3rd Quarter 2010 (b)	9 months to 9/30/2011 (c)	9 months to 9/30/2010 (d)	Change % (a/b)	Change % (c/d)	Change % Organic (c/d)
Revenues	52	50	170	177	4.0	(4.0)	(4.0)
EBITDA	18	1	27	10	°	°	(36.3)
EBITDA margin	*34.6*	*2.0*	*15.9*	*5.6*	*32.6 pp*	*10.3 pp*	
EBIT	4	(14)	(16)	(35)	°	54.3	(5.7)
EBIT margin	*7.7*	*(28.0)*	*(9.4)*	*(19.8)*	*35.7 pp*	*10.4 pp*	
Capital expenditures	7	16	32	37	(56.3)	(13.5)	
Headcount at period-end (number)(°)			826	(*) 777		6.3	

(*) Headcount at December 31, 2010.
(°)The number includes 93 persons with temp contracts at September 30, 2011 and 44 at December 31, 2010.

Revenues

Revenues amount to 170 million euros for the first nine months of 2011, decreasing 7 million euros compared with 177 million euros for the first nine months of 2010; for the third quarter of 2011, revenues come to 52 million euros, increasing 2 million euros over the third quarter of 2010 (50 million euros). In greater detail:

- revenues of TI Media – La7 for the first nine months of 2011, before infragroup eliminations, stand at 98 million euros, increasing 22 million euros (+28.8%) compared with the same period of 2010, thanks to the decisive increase in gross advertising revenues which, for the first nine months of 2011 total 124 million euros, +36.3% over the same period of 2010. Advertising revenues particularly benefitted from the excellent performance of channel La7's daily average audience share which reached 3.7% in the first nine months of 2011 and also from channel La7d's net revenues for the first nine months of the period which totaled 4 million euros (2 million euros for the first nine months of 2010). Revenues for the third quarter of 2011 amount to 27 million euros, increasing 7 million euros over the third quarter of 2010, confirming the positive trend recorded during the period;
- MTV Group revenues come to 53 million euros, before infragroup eliminations, decreasing 13 million euros compared with the first nine months of 2010 (66 million euros). This reduction is due for 8 million euros to lower net advertising revenues and the remaining amount to the fall of other activities, particularly, lower revenues by MTV Mobile (-2 million euros) following the recent contract revision at the end of 2010 and lower revenues by the satellite-music platform channels as a result of the renegotiation, to lower values, of the contract with Sky (-3 million euros). Revenues for the third quarter of 2011 are 18 million euros, decreasing 3 million euros from the third quarter of 2010;
- revenues from Network Operator activities, before infragroup eliminations, amount to 41 million euros, compared with 58 million euros for the first nine months of 2010, decreasing 17 million euros. This reduction is largely due to lower revenues from the customer Dahlia (-20 million euros), which ceased operations at the beginning of 2011. The reduction in the revenues of analog activities with the group, in relation to the switch-off process, was offset by higher revenues from the lease of digital bandwidth on its Multiplexes. For the third quarter of 2011, revenues are 14 million euros, compared with 18 million euros for the third quarter of 2010, decreasing 4 million euros.

EBITDA

EBITDA is a positive 27 million euros for the first nine months of 2011 and increased 17 million euros compared with the first nine months of 2010, thanks to compensation income of 21 million euros on the early termination of the Competence Center contract. Excluding such income, thus in organic terms, EBITDA is 6 million euros, decreasing 4 million euros compared with the same period of 2010. EBITDA is 18 million euros for the third quarter of 2011, showing an improvement of 17 million euros; net of the above compensation, thus in organic terms, EBITDA is 4 million euros lower. In particular:

- EBITDA of TI Media – La7, totals 5 million euros for the first nine months of 2011 and, as described above includes compensation income of 21 million euros; this is an improvement of 37 million euros compared with the first nine months of 2010 (-32 million euros); in organic terms, EBITDA amounts to -16 million euros. Such result is due to the higher contribution of revenues as previously described, which more than compensated the higher operating costs linked largely to the programming of channels La7 and La7d. EBITDA is 10 million for the third quarter of 2011, showing an improvement of 22 million euros compared with the third quarter of 2010; excluding the above-mentioned compensation income, the organic change is a positive 1 million euros;
- EBITDA of the MTV group is 4 million euros, decreasing 5 million euros compared with the first nine months of 2010 (9 million euros). The reduction in EBITDA is due to the contraction in revenues due both to lower advertising and also Mobile and Satellite activities, which was only partly compensated by the reduction in operating costs. EBITDA is 1 million euros for the third quarter of 2011, decreasing 3 million euros compared with the corresponding period of 2010, confirming the trend recorded in previous quarters;
- EBITDA relating to Network Operator activities is 18 million euros and is 14 million euros lower than the corresponding period of the prior year. This result was influenced by the loss of Dahlia TV

sales and compensated by a reduction in operating costs due to greater efficiency in running the network. EBITDA is 7 million euros for the third quarter of 2011, down 3 million euros compared with the third quarter of 2010.

EBIT

EBIT is -16 million euros, showing an improvement of 19 million euros compared with the first nine months of 2010. Excluding compensation income on the early termination of the Competence Center contract, in organic terms, EBIT recorded a reduction of 2 million euros. EBIT is 4 million euros for the third quarter of 2011, up 18 million euros; excluding the above compensation income, in organic terms, EBIT is 3 million euros lower for the third quarter of 2011.

Capital expenditures

Capital expenditures total 32 million euros (37 million euros for the first nine months of 2010). Such expenditures refer to TI Media – La7 (27 million euros), the MTV group (3 million euros) and the Network Operator (2 million euros). They mostly refer to the acquisition of television rights extending beyond one year (25 million euros) and other investments for 7 million euros which include those associated with activities for the digitalization of the networks.

Headcount

Headcount is 826 at September 30, 2011 (including 93 persons with temp work contracts), with an increase of 49 persons compared with December 31, 2010 (777, including 44 with temp work contracts). The increase is mostly attributable to the start of fall programming and the addition of some resources after External Relations were brought in-house.

▸ Other information

Early termination of the Competence Center contract with Telecom Italia

On September 29, 2011, the Telecom Italia Media board of directors' meeting passed a resolution to early terminate the Competence Center contract with Telecom Italia.
The Contract was originally signed in 2007 for a three-year period and subsequently renewed at least until December 31, 2012. The purpose of the contract was the supply of editorial services by Telecom Italia Media to Telecom Italia covering the creation, design of programs, research and purchase of media content for the relative use on Telecom Italia's various TV platforms (IPTV, Cubovision, WEB, etc.). Telecom Italia Media received a minimum guaranteed payment, established on the basis of a forecast of strong customer expansion of the IPTV and OTTV platforms, as well as a variable price as Telecom Italia's relative sales increased.
The above growth forecasts were not met owing to a reduced market, in addition to modifications of the effective application of the regulatory framework of reference, accompanied by a strong push to reduce prices by the two main players of the pay TV platforms in Italy.
In view of the above, Telecom Italia decided on the in-house management of the editorial activities relating to the platforms which it manages. For these reasons, Telecom Italia proposed the early termination of the Contract, as from October 1, 2011, paying Telecom Italia Media compensation of 21 million euros. A fairness opinion on the compensation was issued by an independent external valuation expert, identified by common agreement of the parties.

▸ Principal changes in the regulatory framework

New digital terrestrial regulation

With Decision 353/11/CONS, AGCom issued the new digital terrestrial regulation, which came into effect on July 7, 2011.

On October 14, 2011, Telecom Italia Media Broadcasting (TIMB) challenged this new Regulation. Specifically, the company challenged the provision which allows the audiovisual media services of suppliers of national content to be carried on local operators' networks. The provision which would appear to extend the sphere of application of the concession fee – equal to 1% of sales on analog television activities – to all digital activities, has also been challenged. This extension does not comply with community law which frees the calculation of administrative fees from the amount of reported sales.

Digital frequencies and switch off

National Digital Frequency Assignment Plan

Decision 423/11/CONS of August 5, 2011 integrates the frequency plan in the Liguria, Tuscany, Umbria and Marches regions as well as the Viterbo province with what was already set out by the National Digital Frequency Assignment Plan for the digital terrestrial television broadcasting service, under Decision 330/11/CONS.

On the basis of this decision, AGCom will provide for the plan of digital terrestrial television frequencies with the detailed plan of the resources to be assigned to the local broadcasters in each technical area, after consultation with RAI and the national associations of private broadcasters and networks. As part of this consultation, TI Media, through DGTVI, highlighted the need to revise the plan of national frequencies referred to in Decision 300/10/CONS to take into account the effects of interference caused by the assignment of the 800 bandwidth to mobile operators.

In the same consultation, AGCom presented the list of frequencies that can be used locally, and for the TIMB network, confirmed the use of CH 42 UHF in Liguria, Tuscany and Umbria in place of CH 48 UHF, as that channel, as part of international coordination, is used by France.

Channel CH 60 UHF risk of degradation

The assignment of the frequencies in the 800 bandwidth to operators of mobile telephony will produce interference to the detriment of the broadcasters assigned the adjacent bandwidth.

The frequency that will receive the most interference, since it is the closest to the block intended for telecommunications operators, will be exactly the channel 60 assigned to TIMB and currently in use throughout the national territory.

The interference on channel 60 is of two types. The first is caused by the nearby channel (the first block in the 800 bandwidth, also called "specific block"). The second is generated by the filters, which of necessity must be added to the users' TV antennas to avoid the saturation of the antennas' amplifiers by mobile systems in the 800 bandwidth. These filters will solve the problem of the saturation, but, depending on their quality and hence their price, will render channel 60 unusable.

TIMB will have to assert its rights by proposing actions against the Ministry and AGCom since it was not guaranteed the same quality on CH 60 as the frequencies assigned to the other national operators.

At this time, therefore, although the degradation of channel 60 is not known and cannot be estimated, it is without a doubt that this uncertainty will hinder the formation of commercial relationships with the publishers, to which it will not be able to predict or guarantee the quality of the service provided with any degree of assurance.

Beauty Contest

On July 6, 2011, the call for bids and the regulation of the bidding process were published for the beauty contest for the assignment of six national multiplexes divided into three subsets:

- Lot A, consisting of three MUX DVB-T, in which RAI, Mediaset and TI Media are barred and the Lot is reserved for new entrants and Sky;
- Lot B consisting of two MUX DVB-T, open to all operators, in fact among the incumbents and TI Media;

- Lot C, consisting of one MUX DVB-H/T2, in which RAI, Mediaset and H3G are barred and open to all other operators.

On September 5, TIMB filed three separate bids for the assignment of the following Lots:

- Lot B.1 for assignment of the CH 55 UHF frequency using DVB-T;
- Lot B.2 for assignment of the CH 58 UHF using DVB-T;
- Lot C.1 for assignment of the CH 54 UHF using DVB-T2.

The Commission, appointed by the Ministry of Economic Development on September 14, 2011, on the dates of October 7 and 13 held a public hearing to open the 17 bids filed to ascertain the completeness and conformity with the call for bids and the regulations. Tivultalia (application for Lot A.2) and DBox (application for Lot A.2 and Lot A.3) were excluded from the bidding. All the other applicants were admitted.

The following table presents a summary of the applications admitted for each Lot:

Lot A.1	**Lot A.2**	**Lot A.3**	**Lot B.1**	**Lot B.2**	**Lot C.1**
EUROPA7	DFREE	DFREE	ELETTRONICA INDUSTRIALE	ELETTRONICA INDUSTRIALE	TELECOM ITALIA MEDIA BROADCASTING SRL
	CANALEITALIA	CANALEITALIA	RAI	RAI	
	H3G		TELECOM ITALIA MEDIA BROADCASTING SRL	TELECOM ITALIA MEDIA BROADCASTING SRL	
	SKY				

Principal appeals regarding digital frequencies

With the appeal filed on August 8, 2011, TI Media challenged the bid and regulation relating to the beauty contest intimating the illegality of:

- barring TI Media from bidding for Lot A as if it were on the same footing as RAI and Mediaset;
- considering SKY as a new entry operator and, in contrast, subjecting TI Media to the same restrictive measures as RAI and Mediaset, which are incumbents:
- the economic and technologic restriction on Lot C.1, which can be used for five years only in DVBH (outside the market) or in DVBT2 (without any commercial attraction since the penetration of this technology in the market – actually inexistent – is not scheduled for at least five years after the switch off);
- the assignment criteria for the points which tend to favor operators which have a dominant position (RAI and Mediaset);
- the absence of fixing asymmetrical measures regarding RAI.

Also SKY, Tivultalia and RAI have challenged the call for bids and regulations relating to the beauty contest.

Olivetti

The Olivetti group mainly operates in the sector of office products and services for Information Technology. Thanks to its vast offering of cutting-edge hardware and software, its Solution Provider activities offer solutions able to automate processes and business activities for small and medium enterprises, large corporations and vertical markets. The 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.

▸ The structure of the Business Unit

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

OLIVETTI

- Olivetti S.p.A.
  - Advalso S.p.A
  - Olivetti I-Jet S.p.A.
  - European affiliates

▸ Main operating and financial data

Key results for the third quarter and first nine months of 2011 compared with the corresponding periods of 2010 are presented in the following table:

(millions of euros)	3rd Quarter **2011** (a)	3rd Quarter **2010** (b)	9 months to 9/30/2011 (c)	9 months to 9/30/2010 (d)	**Change %** (a/b)	(c/d)
Revenues	65	83	226	259	(21.7)	(12.7)
EBITDA	(12)	(8)	(36)	(24)	(50.0)	(50.0)
EBITDA margin	*(18.5)*	*(9.6)*	*(15.9)*	*(9.3)*	*(8.9) pp*	*(6.6) pp*
EBIT	(13)	(9)	(40)	(27)	(44.4)	(48.1)
EBIT margin	*(20.0)*	*(10.8)*	*(17.7)*	*(10.4)*	*(9.2) pp*	*(7.3) pp*
Capital expenditures	1	1	4	4	-	-
Headcount at period-end (number)			1,090	(*) 1,090		-

(*) Headcount at December 31, 2010.

Revenues

Revenues amount to 226 million euros for the first nine months of 2011, decreasing 33 million euros compared with the corresponding period of 2010. The market environment is particularly negative for the third consecutive year and the recent deterioration of the Italian and European macroeconomic picture is depressing the estimates for 2011, which forecast a net contraction in ICT expenditures in Italy. As regards Olivetti S.p.A., a reduction of about 13 million euros is recorded in the Telecom Italia channel.
Sales abroad met with a reduction of around 9 million euros, of which 5 million euros occurred in the Europe channel, which is currently undergoing a reorganization, and 4 million euros arose in the International Sales channel (sales to customers outside the EU) where the exchange rate effect on sales in foreign currencies was 2 million euros.
For the third quarter of 2011, revenues amount to 65 million euros (83 million euros for the third quarter of 2010), recording a decline of 18 million euros from the third quarter of 2010 (-21.7% quarter over quarter).

EBITDA

EBITDA is a negative 36 million euros, with a negative change of 12 million euros compared with the first nine months of the prior year. The termination of some contracts with Telecom Italia had a negative repercussion on margins of 7 million euros; instead, the fall in margins caused by a reduction in sales is 8 million euros and 4 million euros of that amount is the result of a continual contraction in the inkjet segment. The process currently in progress to relaunch activities, which at the level of new offerings led to a repositioning of product and service lines, the entry on new markets and the reorganization of certain sales channels, has not yet offset the negative market situation. The lower margins were partly reabsorbed by a reduction in fixed costs for 3 million euros compared with the first nine months of the prior year, despite higher restructuring expenses for almost 1 million euros which are connected to the closing of the operations of the German affiliate.

For the third quarter of 2011, EBITDA is a negative 12 million euros, with a negative change of 4 million euros compared with a negative 8 million euros for the third quarter of 2010.

EBIT

EBIT is a negative 40 million euros, with a negative change of 13 million euros compared with the first nine months of 2010, owing to the reasons explained under EBITDA.

For the third quarter of 2011, EBIT is a negative 13 million euros, with a negative change of 4 million euros compared with a negative 9 million euros for the third quarter of 2010.

Capital expenditures

Capital expenditures amount to 4 million euros, unchanged from the same period of the prior year.

Headcount

Headcount at September 30, 2011 is 1,090 (999 in Italy and 91 outside Italy), unchanged compared with December 31, 2010 (1,090, of whom 1,001 in Italy and 89 outside Italy). During the period, 24 persons were added and 24 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

Commercial developments

During the first nine months of 2011, in response to the evolution of the ICT market and the new opportunities offered by Cloud Computing, Olivetti pursued its repositioning strategy as a Solution Provider by putting together an integrated hardware and software package, customized for the client and supported by an extensive assistance network. The new initiatives distinguish themselves because of the integration of hardware products, on the one hand, and advanced services and applications, on the other, operating in synergy with Telecom Italia and qualified partners.

In particular, after launching in February 2011 the first OliPad 100 tablet, complete with applications for the consumer world and the business world, in September 2011, two new tablet models were launched: OliPad 110 and OliPad Smart again based on Android but with 10- and 7-inch screens.

For the Business market, OliPad tablets offer a higher level of personalization according to a company's individual needs. They also give access to a rich offering of applications thanks to the Application Warehouse, a veritable virtual warehouse of software applications that can be configured and customized that Olivetti has expressly dedicated to companies and the Public Administration. Just a few of the applications available are: digital catalogs and display guides for points-of-sale devoted to fashion sector networks; Sales Force Management applications intended for the management of sales activities in the field; a Social Networking Enterprise Tool aimed at teams working both inside and outside the company and Signature Workflow management of company documents thanks to the digital signature.

During the last few months, various commercial endeavors have been activated with large customers with the aim of employing the OliPad for automation projects: in particular, Olivetti, with Telecom Italia, won the supply of OliPad Tablets for the management and biometric signature for 13,000 branches of the Intesa Sanpaolo group. In the advanced stage is the project for accessing company applications by more than ten thousand people in the field in the transport sector, in addition to other important projects in the pharmaceutical and utilities sectors.

With regard to the Consumer market, OliPad tablets are marketed through the Telecom Italia sales network and at large retail consumer electronics chains. As for market of companies and the Public Administration, OliPads are marketed through the dedicated sales networks of Olivetti and Telecom Italia. Innovative distribution channels are also being developed: in April, OliPad was offered on Twitter, the social networking and microblogging platform and, since September, the new OliPads can also be purchased online through the innovative shop on Facebook that can be accessed from the Olivetti Fan Page.

Work is continuing on the important project begun in 2009 in collaboration with Telecom Italia S.p.A. for the supply of specialized payments/services terminals at authorized tobacco stores in Italy. In June 2011, in particular, Olivetti supplied the first 1000 new M210T terminals that were developed according to the technical specifications agreed with the final customer in September 2010; this was an interval of only nine months between the design phase of the product and then manufacturing and delivery. In the third quarter of 2011, another 1000 terminals were supplied.

Furthermore, in the first nine months of 2011, Advalso's business grew 30% thanks to the consolidation of traditional activities (technical front end) and also the focus on end-to-end caring activities.

Corporate Boards at September 30, 2011

Board of Directors

The ordinary shareholders' meeting held on April 12, 2011 appointed the new board of directors of the Company composed of 15 directors who will remain in office for three years until the approval of the financial statements for the year ended December 31, 2013.
On April 13, 2011, the board of directors appointed Franco Bernabè Executive Chairman, Aldo Minucci Deputy Chairman and Marco Patuano Managing Director and Chief Operating Officer.
On August 4, 2011, the board of directors coopted the director Lucia Calvosa to replace the director Ferdinando Falco Beccalli, who resigned on June 6, 2011.
Consequently, the board of directors of the Company is now composed as follows:

Executive Chairman	Franco Bernabè
Deputy Chairman	Aldo Minucci
Managing Director and Chief Operating Officer	Marco Patuano
Directors	César Alierta Izuel Tarak Ben Ammar Lucia Calvosa (independent) Elio Cosimo Catania (independent) Jean Paul Fitoussi (independent) Gabriele Galateri di Genola Julio Linares López Gaetano Micciché Renato Pagliaro Francesco Profumo (independent) Mauro Sentinelli (independent) Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Piazza degli Affari 2.

On April 13, 2011, the board of directors also appointed the members of the board Committees, which are now composed as follows:

- **Executive Committee** – Executive Chairman, Deputy Chairman, Chief Operations Officer, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli (*);
- **Committee for Internal Control and Corporate Governance** – Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Lucia Calvosa (**), Francesco Profumo, Mauro Sentinelli and Luigi Zingales;
- **Nomination and Remuneration Committee** - Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Gabriele Galateri di Genola and Francesco Profumo.

(*) The Committee also included the director Ferdinando Falco Beccalli, who submitted his resignation to the board of directors on June 6, 2011.

(**) On September 29, 2011, the board of directors, having taken note of the resignation of the director Francesco Profumo, appointed the director Lucia Calvosa to replace him. The Committee continues to be composed of only independent directors.

In addition to the responsibilities of the internal Committees which remain those established by the Company's Self-regulatory Code, the following duties were also attributed to:

- the Executive Committee: responsibility for expressing a preliminary opinion on the transactions submitted for approval to the board of directors pursuant to point 3.2 of the Self-regulatory Code, that is, on the transactions which, by their nature, strategic importance, size or commitments which they may involve, have a significant impact on the operations of the Company and the Group;
- the Committee for Internal Control and Corporate Governance: responsibility over matters regarding transactions with related parties according to the specific Procedure on this subject and the task of high-level oversight regarding corporate social responsibility;
- the Nomination and Remuneration Committee: responsibility over matters regarding the management succession and replacement process and the selection/designation of the external member of the Supervisory Board, as well as the task of formulating proposals for allocating the total compensation established by the shareholders' meeting among the entire board of directors.

Board of Statutory Auditors

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

Chairman	Enrico Maria Bignami
Acting Auditors	Gianluca Ponzellini
	Lorenzo Pozza
	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Silvano Corbella
	Maurizio Lauri
	Vittorio Giacomo Mariani
	Ugo Rock

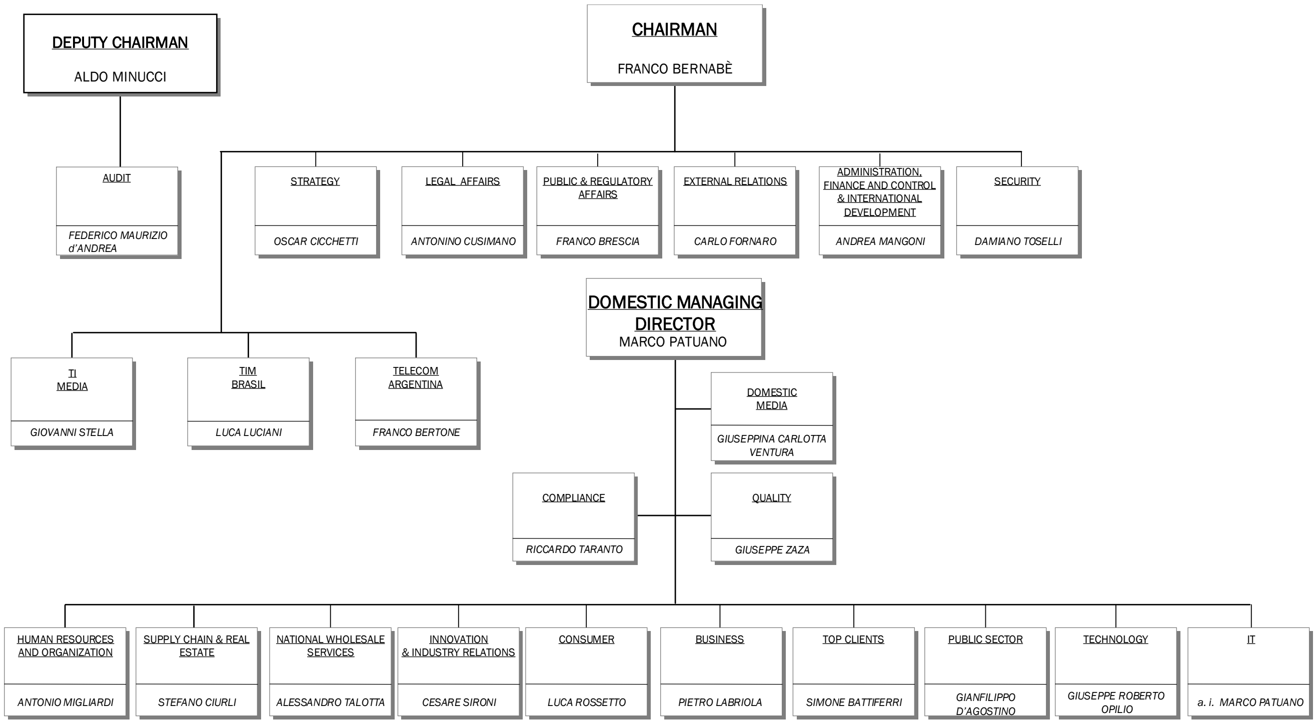
Independent Auditors

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

Manager responsible for preparing the corporate financial reports

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

Macro-Organization Chart at September 30, 2011 - Telecom Italia Group



Effective October 5, 2011, the **Information Technology** function is under the responsibility of Gianluca Pancaccini.

Furthermore, effective October 16, 2011, the **Compliance function** is under the responsibility of the Group Compliance Officer Francesca Petralia.

Information for Investors

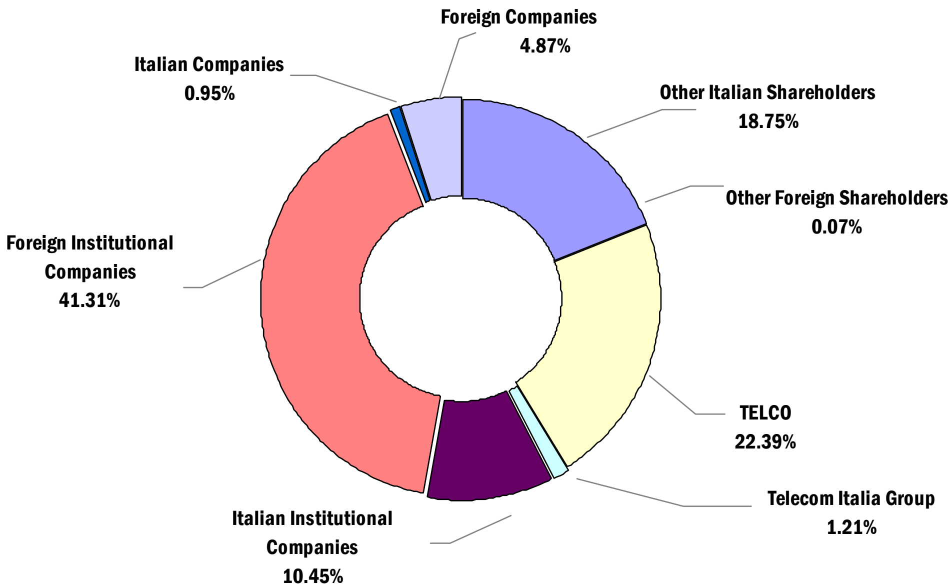
▸ Telecom Italia S.p.A. Share Capital at September 30, 2011

Share capital	10,693,628,019.25 euros
Number of ordinary shares (par value 0.55 euros each)	13,416,839,374
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%
Market capitalization (based on September 2011 average prices)	14,802 million euros

On August 2, 2011, under the Broad-based Employees Share Ownership Plan reserved for employees of Telecom Italia and the companies which it controls with headquarters in Italy, share capital was increased with the grant of 8,876,296 bonus ordinary shares made to those entitled, for a total nominal amount of 4,881,962.80 euros, drawing from the specific profits reserve set up on April 12, 2011 by the ordinary session of the shareholders' meeting.

▸ Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at September 30, 2011, supplemented by communications received and other available sources of information (ordinary shares):



The shareholders of Telco (Generali Group: 30.58%; Mediobanca S.p.A.: 11.62%; Intesa Sanpaolo S.p.A.: 11.62%; Telefónica S.A.: 46.18%) signed a Shareholders' Agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122.
The description of the fundamental contents of the agreement is contained in the Report on the Corporate Governance and Share Ownership Structure, published on the website: telecomitalia.com.

▸ Major Holdings in share capital

At September 30, 2011, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are as follows:

Holder	Type of ownership	% stake in ordinary share capital
Telco S.p.A.	Direct	22.39%
Findim Group S.A.	Direct	4.99%

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

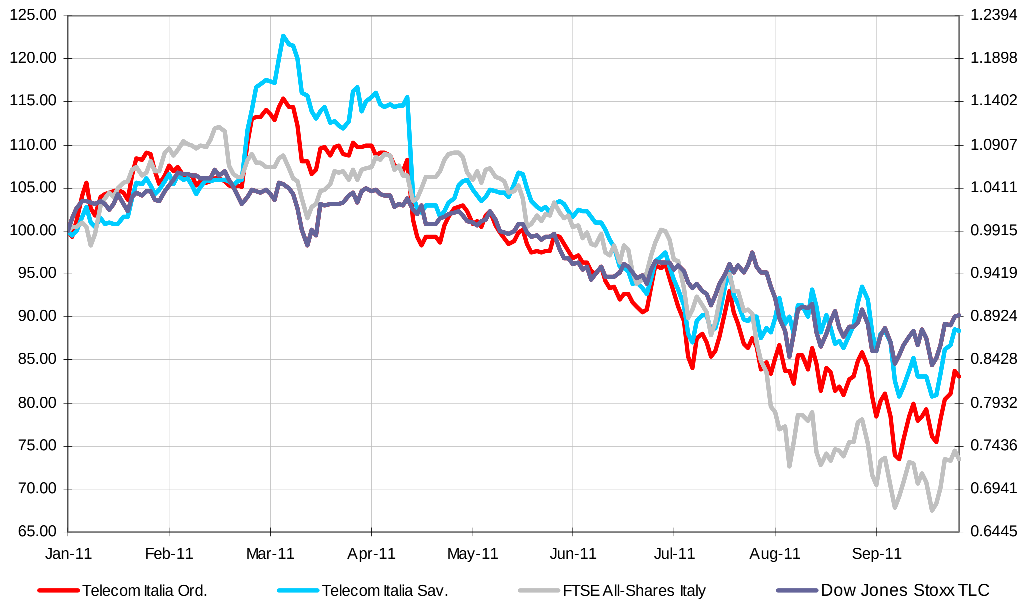
- Blackrock Inc.: on May 20, 2010, for a quantity of ordinary shares which at September 30, 2011 is equal to 2.89% of total Telecom Italia S.p.A. ordinary shares;
- Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares which at September 30, 2011 is equal to 2.06% of total Telecom Italia S.p.A. ordinary shares.

Common Representatives

- The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2012).
- By decree of March 26, 2009, the Milan Court appointed Francesco Pensato as the common representative of the bondholders for the "Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019" (with a mandate for the three-year period 2009-2011).
- By decree of March 7, 2011, the Milan Court appointed Enrico Cotta Ramusino as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired (with a mandate for the three-year period 2011-2013).

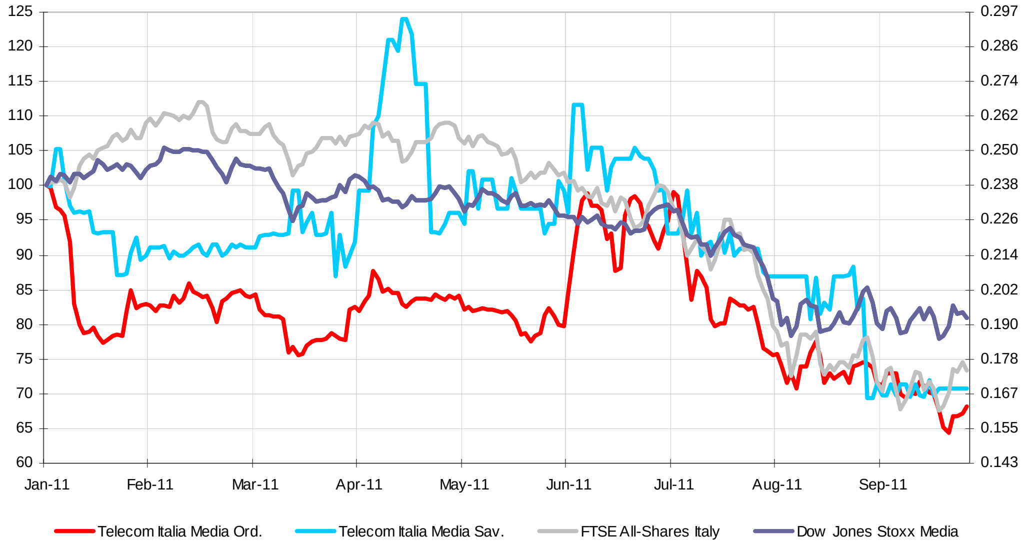
Performance of the Stocks of the Major Companies in the Telecom Italia Group

Relative performance by Telecom Italia S.p.A.
1/1/2011 – 9/30/2011 vs. FTSE Italia All-Share Index and DJ Stoxx TLC Index (*)



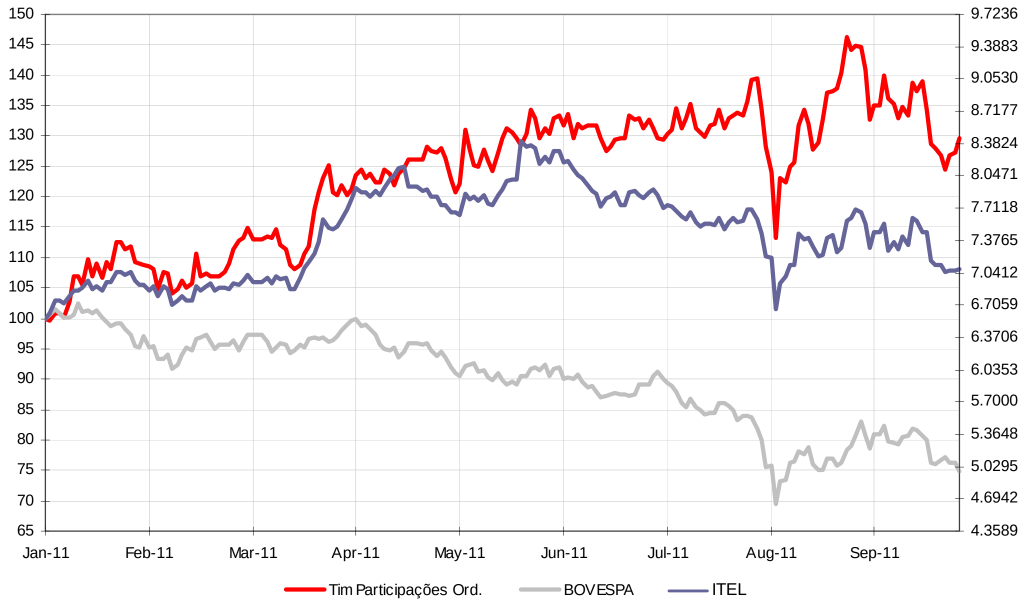
(*) Chart based on Telecom Italia ord. price of EUR 0.9915 at 1/3/2011 - Stock market prices. Source: Reuters.

Relative performance by Telecom Italia Media S.p.A.
1/1/2011 – 9/30/2011 vs. FTSE Italia All-Share Index and DJ Stoxx Media Index (*)



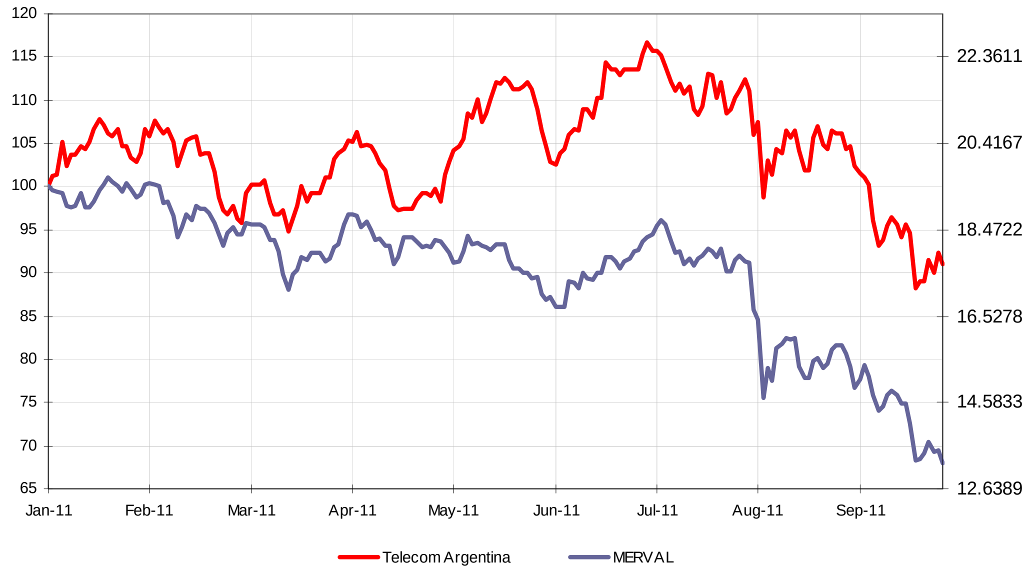
(*) Chart based on Telecom Italia Media ord. price of EUR 0.238 at 1/3/2011 - Stock market prices.
Source: Reuters.

Relative performance by Tim Participações S.A.
1/1/2011 – 9/30/2011 vs. BOVESPA Index and ITEL Index (in Brazilian reais) (*)



(*) Chart based on Tim Participações ord. price BRL 6.7059 at 1/3/2011 - Stock market prices.
Source: Reuters.

Relative performance by Telecom Argentina S.A. (Class B ordinary shares)
1/1/2011 – 9/30/2011 vs. MERVAL Index (in Argentine pesos) (*)



(*) Chart based on Telecom Argentina Class B price ARS 19.44 at 1/3/2011 - Stock market prices.
Source: Reuters.

Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares, Telecom Argentina S.A. Class B ordinary shares and Nortel Inversora S.A. Class B preferred shares are listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 Telecom Italia S.p.A. ordinary shares and 10 savings shares, 5 Tim Partecipações ordinary shares, 5 Telecom Argentina S.A. Class B ordinary shares and 0.05 Nortel Inversora S.A. Class B preferred shares.

▸ Rating at September 30, 2011

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

In October, Standard & Poor's and Fitch Ratings also downgraded the Outlook to "Negative".
The downgrade of the Outlook from "Stable" to "Negative", principally reflects the rating agencies' fear of the impact on business from a possible slowdown in the macroeconomic scenario in Italy, associated with the introduction of austerity measures by the government.

Related Party Transactions

In accordance with art. 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning “related party transactions” and the subsequent Consob Resolution 17389 of June 23, 2010, no significant transactions were entered into as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group for the first nine months of 2011.
Furthermore, there were no changes or developments regarding the related party transactions described in the 2010 report on operations which had a significant effect on the financial position or on the results of the Telecom Italia Group for the first nine months of 2011.
Transactions with related parties, when not dictated by specific laws, are in any case conducted at arm’s length.
The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the separate consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.

The **effects on the individual line items of the separate consolidated income statements** for the first nine months of 2011 and 2010 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 months to 9/30/2011

(millions of euros)	**Total**	**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.**	% incidence on financial statement line item
Revenues	**22,059**	59	2	744			**805**		**805**	3.6
Other income	**167**									
Acquisition of goods and services	**9,442**	13	24	496			**533**		**533**	5.6
Employee benefits expenses	**2,884**			3	70		**73**		**73**	2.5
Gains (losses) on disposals of non-current assets	**23**									
Finance income	**1,644**			138			**138**		**138**	8.4
Finance expenses	**3,110**	17		37			**54**		**54**	1.7

(*) Other related parties through directors, statutory auditors and key managers.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 months to 9/30/2010

(millions of euros)	**Total**	**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.**	% incidence on financial statement line item
Revenues	**19,899**	91	21	610			**722**		**722**	3.6
Other income	**160**	1		3			**4**		**4**	2.5
Acquisition of goods and services	**8,097**	64	5	361			**430**		**430**	5.3
Employee benefits expenses	**2,911**			3	69		**72**		**72**	2.5
Gains (losses) on disposals of non-current assets	**14**			(1)			**(1)**		**(1)**	
Finance income	**2,780**			223			**223**		**223**	8.0
Finance expenses	**4,330**	21		33			**54**		**54**	1.2

(*) Other related parties through directors, statutory auditors and key managers.

The effects on the individual line items of the consolidated statements of financial position at September 30, 2011 and at December 31, 2010 are as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 9/30/2011

(millions of euros)	**Total**	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.**	% incidence on financial statement line item
Net financial debt										
Securities, financial receivables and other non-current financial assets	**(2,737)**			(233)			**(233)**		**(233)**	8.5
Securities other than investments (current assets)	**(1,030)**			(11)			**(11)**		**(11)**	1.1
Financial receivables and other current financial assets	**(571)**			(29)			**(29)**		**(29)**	5.1
Cash and cash equivalents	**(4,142)**			(72)			**(72)**		**(72)**	1.7
Non-current financial liabilities	**34,255**	169		249			**418**		**418**	1.2
Current financial liabilities	**4,475**	135		44			**179**		**179**	4.0
Total net financial debt	**30,250**	**304**		**(52)**			**252**		**252**	**0.8**
Other statement of financial position line items										
Miscellaneous receivables and other non-current assets	**1,116**	15		1			**16**		**16**	1.4
Trade and miscellaneous receivables and other current assets	**7,813**	22	1	254			**277**		**277**	3.5
Miscellaneous payables and other non-current liabilities	**1,080**			3			**3**		**3**	0.3
Trade and miscellaneous payables and other current liabilities	**9,831**	11	18	168	27		**224**		**224**	2.3

(*) Other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 12/31/2010

(millions of euros)	**Total**	**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.**	% incidence on financial statement line item
Net financial debt										
Securities, financial receivables and other 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
Non-current financial liabilities	**34,348**	193		238			**431**		**431**	1.3
Current financial liabilities	**6,882**	118		128			**246**		**246**	3.6
Total net financial debt	**32,087**	**311**		**107**			**418**		**418**	**1.3**
Other statement of financial position line items										
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 first nine months of 2011 and 2010 are as follows:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 months to 9/30/2011

(millions of euros)	Total	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.**	% incidence on financial statement line item
Purchase of intangible and tangible assets on an accrual basis	**3,190**	2	122				**124**		**124**	3.9
Dividends paid	**1,326**			191	1		**192**		**192**	14.5

(*) Other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 months to 9/30/2010

(millions of euros)	Total	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.**	% incidence on financial statement line item
Purchase of intangible and tangible assets on an accrual basis	**2,938**	2	7	2			**11**		**11**	0.4
Dividends paid	**1,061**			163	1		**164**		**164**	15.5

(*) Other related parties through directors, statutory auditors and key managers.

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

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Revenues			
ETECSA		4	International telecommunications services, roaming and technical assistance
LI.SIT. S.p.A.		3	Lombardy Region social health system information networking and telephone services
NordCom S.p.A.	1	2	Telephone, data network connections and applications software and call center services
Telbios S.p.A.		2	Supply of telephone services, ADSL, sale of equipment and property leases
Teleleasing S.p.A.	56	78	Sale of equipment as per the 2000 collaboration agreement
TM News S.p.A.	1	1	Fixed and mobile telephony services, property leases and administrative outsourcing
Other minor companies	1	1	
Total revenues	**59**	**91**	
Other income		**1**	Recovery of costs of personnel on secondment and recovery of costs for services rendered
Acquisition of goods and services			
ETECSA	5	47	International telecommunications services and roaming
NordCom 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
Telbios S.p.A.		4	Supply of audio/visual products and hardware systems and software services for remote medicine offerings and call center services
Teleleasing S.p.A.	3	5	Purchase of goods sold under leasing arrangements with Telecom Italia customers as per the 2000 collaboration agreement
Tiglio I S.r.l.		3	Property leases
TM News S.p.A.	3	3	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	1	
Total acquisition of goods and services	**13**	**64**	
Finance expenses	**17**	**21**	Interest expenses for finance leases of equipment and finance leases with Teleleasing S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	9/30/2011	12/31/2010	Type of contract
Net financial debt			
Non-current financial liabilities			
Teleleasing S.p.A.	169	192	Finance lease of equipment and finance leases
Tiglio I S.r.l.		1	Sale and leaseback transactions
Total non-current financial liabilities	**169**	**193**	
Current financial liabilities	**135**	**118**	Finance leases of equipment and finance leases with Teleleasing S.p.A.
Other statement of financial position line items			
Miscellaneous receivables and other non-current assets	**15**	**15**	Miscellaneous receivables net of provision for bad debts
Trade and miscellaneous receivables and other current assets			
EtecSA		29	International telecommunications services, roaming and dividends collectible
NordCom S.p.A.	1	1	Supply of data network connections and applications software
Teleleasing S.p.A.	19	33	Sale of equipment as per the 2000 collaboration agreement
TM News S.p.A.	1	1	Property leases and telecommunications services
Other minor companies	1	1	
Total trade and miscellaneous receivables and other current assets	**22**	**65**	
Trade and miscellaneous payables and other current liabilities			
EtecSA		2	Telecommunications services and roaming
Movenda S.p.A.	1	1	Development of computer solutions and applications software for SIM card laboratories and mobile handsets and professional services
Nord.Com S.p.A.	1	1	Purchase and development of computer solutions
Teleleasing S.p.A.	6	11	Purchase of goods sold under leasing arrangements with Telecom Italia customers as per the 2000 collaboration agreement
Tiglio I S.r.l.	1	2	Property leases
TM News S.p.A.	1	1	Press agency services and supply of information content
Other minor companies	1		
Total trade and miscellaneous payables and other current liabilities	**11**	**18**	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Purchase of intangible and tangible assets on an accrual basis	**2**	**2**	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 is considered an associate and the companies controlled by Italtel Group S.p.A. are considered related parties of the Telecom Italia Group.
On October 13, 2010, the Sofora group entered the scope of consolidation 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. was an associate and therefore a related party; the companies controlled by Sofora Telecomunicaciones S.A. were related parties in that they were subsidiaries of associates.
The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Revenues			
Italtel Group	2		Supply of telephone and data transmission services, contact center and sale of LAN and MAN networks
Sofora - Telecom Argentina Group		21	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.
Total revenues	**2**	**21**	
Acquisition of goods and services			
Italtel Group	24	1	Hardware revision services, software development, maintenance and assistance contracts, platform updates, supply and management of customized offerings and supply and maintenance of switching equipment
Sofora - Telecom Argentina Group		4	International telecommunications services and roaming
Total Acquisition of goods and services	**24**	**5**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	9/30/2011	12/31/2010	Type of contract
Net financial debt			
Trade and miscellaneous receivables and other current assets	**1**	1	Supply contracts related to CAPEX and OPEX to Italtel Group
Trade and miscellaneous payables and other current liabilities	**18**	39	Hardware revision services, software development and maintenance and assistance contracts to Italtel Group

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Purchase of intangible and tangible assets on an accrual basis	**122**	7	Telecommunications devices from Italtel Group

At September 30, 2011, the Telecom Italia Group has provided guarantees on behalf of associates for a total of 6 million euros: on behalf of Aree Urbane S.r.l. 5 million of euros and Baltea S.r.l. 1 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 pursuant to the Regulation carrying the provisions on the subject of related party transaction adopted by Consob under Resolution 17221 of March 12, 2010, as amended – provides that the procedure should be applied also to parties who, regardless of whether they qualify as related parties as set out in 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.
The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Revenues			
ATM Group	2	1	Supply of customized services and business data network
Generali Group	55	43	Supply of telephone and data transmission services, peripheral data networks, connections, storage and telecommunications equipment and services for foreign holdings
Intesa Sanpaolo Group	57	65	Telephone, data and international network services, ICT services, LAN network management and applications platform
Mediobanca Group	5	5	Telephone and MPLS data network services and marketing of data and VoIP devices
Telefónica Group	624	495	Interconnection services, roaming, broadband access fees, supply of “IRU” transmission capacity and software
Other minor companies	1	1	
Total revenues	**744**	**610**	
Other income		**3**	Damage compensation from the Generali Group
Acquisition of goods and services			
Generali Group	23	20	Insurance premiums and property leases
Intesa Sanpaolo Group	11	10	Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards
Mediobanca Group	1	2	Credit recovery activities
Telefónica Group	460	329	Interconnection and roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling
Other minor companies	1		
Total acquisition of goods and services	**496**	**361**	
Employee benefits expenses	**3**	**3**	Non-obligatory employee insurance taken out with the Generali Group
Gains (loss) on disposals of non-current assets		**(1)**	Expenses and fees to the Mediobanca group and Intesa Sanpaolo group incurred for the disposal of investments
Finance income			
Intesa Sanpaolo Group	126	193	Bank accounts, deposits and hedging derivatives
Mediobanca Group	12	30	Bank accounts, deposits and hedging derivatives
Total finance income	**138**	**223**	
Finance expenses			
Intesa Sanpaolo Group	33	19	Term Loan Facility, Revolving Credit Facility, hedging derivatives, loans and bank accounts
Mediobanca Group	4	14	Term Loan Facility and Revolving Credit Facility and hedging derivatives
Total finance expenses	**37**	**33**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	9/30/2011	12/31/2010	Type of contract
Net financial debt			
Securities, financial receivables and other non-current financial assets			
Intesa Sanpaolo Group	208	81	Hedging derivatives
Mediobanca Group	25	28	Hedging derivatives
Total securities, financial receivables and other non-current financial assets	**233**	**109**	
Securities other than investments (current assets)			
Generali Group	2	2	Bonds
Intesa Sanpaolo Group	4	7	Bonds
Mediobanca Group	5	5	Bonds
Total securities other than investments (current assets)	**11**	**14**	
Financial receivables and other current financial assets			
Intesa Sanpaolo Group	26	10	Hedging derivatives
Mediobanca Group	3	13	Hedging derivatives
Total financial receivables and other current financial assets	**29**	**23**	
Cash and cash equivalents	**72**	**113**	Bank accounts and deposits with Intesa Sanpaolo Group
Non-current financial liabilities			
Intesa Sanpaolo Group	174	176	Revolving Credit Facility, hedging derivatives, loans and finance lease liabilities
Mediobanca Group	75	62	Revolving Credit Facility and hedging derivatives
Total non-current financial liabilities	**249**	**238**	
Current financial liabilities			
Intesa Sanpaolo Group	43	127	Bank accounts, hedging derivatives, finance lease liabilities and other financial payables
Mediobanca Group	1	1	Hedging derivatives
Total current financial liabilities	**44**	**128**	

(millions of euros)	9/30/2011	12/31/2010	Type of contract
Other statement of financial position line items			
Miscellaneous receivables and other non-current assets	**1**		Escrow to guarantee contract obligations connected to corporate transactions with the Intesa Sanpaolo group
Trade and miscellaneous receivables and other current assets			
ATM Group	1	1	Supply of customized services and business data network
China Unicom Group	1	1	Supply of international telecommunications services and roaming
Generali Group	24	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	144	89	Supply of telephone, data and international network services, ICT services, LAN network management and applications platform
Mediobanca Group	1		Supply of telephone and MPLS data network services and marketing of data and VoIP devices
Telefónica Group	83	86	Interconnection services, roaming, broadband access fees, supply of "IRU" transmission capacity and software
Other minor companies		1	
Total trade and miscellaneous receivables and other current assets	**254**	**204**	
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	Acquisition of "FISM rights"
China Unicom Group	2	1	International telecommunications services and roaming
Generali Group	4		Deferred income relating to outsourcing of data network and central and peripheral telephone systems
Intesa Sanpaolo Group	94	159	Mobile banking services, commissions for payment of telephone bills by direct debit and collections via credit cards
Mediobanca Group	1	1	Credit recovery activities and factoring commissions
Telefónica Group	66	73	Interconnection services, roaming, site sharing, co-billing agreements, broadband line sharing and unbundling
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	**168**	**236**	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Purchase of intangible and tangible assets on an accrual basis		**2**	Capitalization of costs connected with "FISM rights" to the A1 Investments group.
Dividends paid			
Telco	174	150	Dividends paid
Other minor companies	17	13	Dividends paid
Total dividends paid	**191**	**163**	

Transactions with pension funds

The most significant amounts are summarized as follows:

CONSOLIDATED SEPARATE INCOME STATEMENT LINE ITEMS

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010	Type of contract
Employee benefits expenses			Contributions to pension funds
Fontedir	9	10	
Telemaco	56	55	
Other Italian and foreign pension funds	5	4	
Total employee benefits expenses	**70**	**69**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	9/30/2010	12/31/2010	Type of contract
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds
Fontedir	4	5	
Telemaco	21	25	
Other Italian and foreign pension funds	2	2	
Total trade and miscellaneous payables and other current liabilities	**27**	**32**	

Remuneration to key managers

In the first nine months of 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 12.6 million euros (7.5 million euros in the first nine months of 2010), analyzed as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010
Short-term remuneration	10.5	6.6
Long-term remuneration	1.2	
Share-based payments(*)	0.9	0.9
	12.6	**7.5**

(*) These refer to the fair value of the rights, accrued to September 30, under Telecom Italia S.p.A.'s share-based incentive plans (PSG, TOP 2008 and LTI 2011).

In the first nine months of 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 280,000 euros (256,000 euros in the first nine months of 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 Chief Executive Officer and Chief Operating Officer of Telecom Italia S.p.A. (2)
Managers:	
Franco Bertone	Dirección General Ejecutiva (CEO) of 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	Director Chairman of Tim Brasil
Andrea Mangoni	Head of Administration, Finance and Control & 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.

Significant Non-recurring Events and Transactions

The impact of non-recurring events and transactions on equity, profit, net financial debt and cash flows of the Telecom Italia Group is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006.

The impact of non-recurring events and transactions on the single line items of the separate consolidated income statement is as follows:

(millions of euros)	9 months to 9/30/2011	9 months to 9/30/2010
Acquisition of goods and services – Other operating expenses:		
Sundry expenses	(2)	(12)
Expenses for corporate operations	(3)	-
Employee benefits expenses:		
Expenses for mobility under Law 223/91	(2)	(240)
Impact on Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**(7)**	**(252)**
Gains/(losses) on disposals of non-current assets:		
Net gains on disposal of Elettra	-	19
Net gain on disposal of Loquendo	35	-
Impairment reversals (losses) on non-current assets:		
Core Domestic goodwill impairment charge	(3,182)	-
Provision charge for losses of subsidiaries and associates	-	(3)
Impact on Operating profit (loss) (EBIT)	**(3,154)**	**(236)**
Other income (expenses) from investments:		
Net gain on disposal of EtecSA (Cuba)	17	-
Net gains on disposal of other investments	(1)	1
Impact on Profit (loss) before tax from continuing operations	**(3,138)**	**(235)**
Income taxes on non-recurring items	2	68
Discontinued operations	(11)	(2)
Impact on Profit (loss) for the period	**(3,147)**	**(169)**

Positions or Transactions resulting from Atypical and/or Unusual Operations

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in the first nine months of 2011 no atypical and/or unusual transactions have been put into place, as defined by that Communication.

Alternative Performance Measures

In this Interim Report at September 30, 2011 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

The non-IFRS alternative performance measures used are described below:

- **EBITDA:** this financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) in addition to **EBIT**. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT - Operating profit	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

- **Organic change in Revenues, EBITDA and EBIT:** these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level). The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Interim Report as well as an analysis of the major non-organic components for the first nine months of 2011 and 2010.

- **Net Financial Debt:** Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. This Interim Report includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.
  In order to better represent the actual change in net financial debt, starting with the Half-year Financial Report at June 30, 2009, in addition to the usual measure (renamed "Net financial debt carrying amount") a new measure has been introduced denominated "Adjusted net financial debt" which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	**Gross financial debt**
+	Non-current financial assets
+	Current financial assets
+	Financial assets included in Discontinued operations/Non-current assets held for sale
B)	**Financial assets**
C=(A - B)	**Net financial debt carrying amount**
D)	**Reversal of fair value measurement of derivatives and related financial assets/liabilities**
E=(C + D)	**Adjusted net financial debt**

Litigation, pending legal action and other Information

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at September 30, 2011 are described below.
The Telecom Italia Group has posted liabilities totalling 178 million euros for those of the disputes described below for which the risk of losing the case has been considered at least probable.

► A) Significant disputes and pending legal action

Telecom Italia Sparkle – Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Rome Public Prosecutor's Office
On February 23, 2010, the Guardia di Finanza (Finance Police), authorized by the Rome Public Prosecutor's Office, served the following documents on Telecom Italia Sparkle:

- an order setting the date of the hearing in chambers on "*the request for application of the suspension from trading activities to be replaced by the appointment of a receiver pursuant*" to legislative decree no. 231/2001;
- an order for the preventive seizure of a total of approximately 298 million euros (corresponding to the "*unlawfully accrued VAT credit for those tax years in which the alleged unlawful activities took place*").

The alleged offences of some ex-directors, ex-employees and employees of Telecom Italia Sparkle were transnational conspiracy, tax evasion in league with others, transnational money laundering, reinvestment of unlawful revenues and false registration of ownership of assets. The offences of transnational conspiracy, transnational money laundering and reinvestment of unlawful revenues also constitute predicate offences of the administrative liability of the organisation, pursuant to legislative decree no. 231/2001.
Telecom Italia Sparkle therefore set in motion a series of initiatives involving, in particular:

- the precautionary suspension of employees involved in the proceedings, and the termination of the employment of those employees on remand;
- appointment of an independent professional (Professor Paolo Ferro-Luzzi) to, among other things, verify that the organisational tools required by legislative decree no. 231/2001 (so-called "231 Model") have been adopted and actually implemented;
- a guarantee bond for approximately 72 million euros payable to the Judicial Authorities involved in the event of confiscation – pursuant to article 19 of legislative decree no. 231/2001 – of this sum as the profits of the alleged offences, with an irrevocable judgment;
- a guarantee bond for approximately 123 million euros payable to the Tax Authorities, representing the difference between the amount already subject to precautionary seizure, as VAT deducted in tax years 2005, 2006 and 2007 (approximately 298 million euros) and the estimated maximum sum that might be payable by Telecom Italia Sparkle to settle its tax affairs in the event of assessment or settlement procedures agreed with the Agenzia delle Entrate (Revenues Agency);
- the adoption of a series of internal measures that incorporated the final suggestions formulated by Prof. Ferro-Luzzi on the governance of the company, its organisation and control arrangements, operations, and the "231 Model".

In the light of these initiatives, and after revocation of the request to appoint a receiver by the Rome Prosecutor's Office, the judge in the preliminary investigation (the GIP) declared that there are "*no grounds to proceed*".
In May 2010 the Guardia di Finanza communicated a "note of findings" to Telecom Italia Sparkle, stating:

- that the VAT on the services attributable to the fraud mentioned above, deducted in the 2005, 2006 and 2007 tax years, totalling approximately 298 million euros, was not deductible;
- that the costs of the aforementioned operations was not deductible for the purposes of corporation tax and regional tax (IRES and IRAP); the corresponding tax expense estimated by the company totals approximately 429 million euros, plus fines and interest.

Subsequently, in July 2010, the Lazio regional office of the Agenzia delle Entrate, taking note of the findings raised by the Guardia di Finanza, served three notices of assessment on Telecom Italia Sparkle, notifying the company of the non-deductibility of VAT totalling approximately 298 million euros, as mentioned above, plus interest and fines.
In July 2010 Telecom Italia Sparkle paid a proportion of the fines (25% of the sum imposed), the whole of the VAT considered to be non-deductible, plus the interest, for a total of 418 million euros. After the payment, the bank guarantee for approximately 123 million euros, which had been issued in favour of the tax authorities, lapsed.
Moreover, in August 2010, the application for the preventive seizure ordered by the Rome Prosecutor's Office in February 2010 to be revoked was granted. In consequence, the assets seized were released, apart from a sum of 10 million euros that remains under seizure for guarantees connected to the criminal proceedings currently underway.
Finally, granting the application made in August 2010 by the Rome Prosecutor's Office, the judge in the preliminary investigation ordered the immediate trial of the defendants currently subject to precautionary measures. In particular, the application requested the immediate trial of the ex-chief executive and two ex-employees of Telecom Italia Sparkle.
In relation to this trial, Telecom Italia Sparkle made 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.
The investigation of Telecom Italia Sparkle is still ongoing and hence all the documents relating to the proceedings have not yet been disclosed. It therefore follows that, given the complexity of the investigations and the incomplete information currently available, no definitive prediction of the outcome of the case can be formulated, notwithstanding and without prejudice to the defenses that Telecom Italia Sparkle will pursue to the fullest extent permitted by law to demonstrate its non-involvement in the matters at issue.
Regarding the effects of a conviction under legislative decree no. 231/2001, in addition to the administrative fines and any interdiction, the profits of the crime would be confiscated, and in the current formulation of the charge by the public prosecutors and without prejudice to the defense considerations that will be developed in relation to this, would total approximately 72 million euros (a sum already guaranteed by the bond mentioned above and already set aside in the 2009 consolidated financial statements). Hence, based on the information available, the company expects to suffer no further material effects other than those for which provision has already been made and/or seizure carried out.
So for as the residual fiscal risk is concerned, the Agenzia delle Entrate has not, so far, issued notices of assessment in relation to the claim of the Guardia di Finanza relating to direct taxation. In this respect, Telecom Italia Sparkle – also based on the opinion of authoritative professionals – believes that if this too should happen, the risk of losing such a case is only possible, not probable. As a result, no provision to cover the fiscal risk for direct taxation has been made.

National tax disputes

On March 25, 2011 the Milan Agenzia delle Entrate served two notices of demand on both Telecom Italia S.p.A. and subsidiary Olivetti Multiservices S.p.A. 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, and have therefore been asked to pay approximately 10 million euros in tax and interest; it should be recalled that similar notices were served in December 2010 concerning property transfers to the same funds in December 2005; the amount claimed totaled approximately 61 million euros.
So far as the notices of demand served in December 2010 are concerned, the companies – also supported by authoritative professional opinions – asserted that they had operated within the full respect of the tax laws and that the claims made by the Agenzia should therefore be considered to be unfounded in law; for this reason they contested the notices, and appealed to the Milan Commissione Tributaria Provinciale (Provincial Tax Commission); this body, at the request of the company, granted a stay of execution of the notices. In addition, the companies have already filed an application for an internal review and suspension with the competent offices of the Agenzia delle Entrate.

Since the two new notices of demand are of the same nature as those served in December 2010 and appealed by the companies, the above evaluation applies to them too; hence the companies have appealed the latest notices served, and asked the Provincial Tax Commission to suspend them. They have also filed an application for an internal review and suspension with the Agenzia delle Entrate.
The Milan Provincial Tax Commission met on October 4, and postponed consideration of the group of appeals, at the request of the Agenzia delle Entrate. The request for postponement was motivated by the Agenzia's intention to review the whole issue, also in light of a possible revocation of the notices in the internal review.

International tax disputes

On March 22, 2011 Tim Celular was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1,265 million Reais (approximately 550 million euros), including penalties and interest, as a result of the completion of a tax investigation of financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A (previously called Maxitel), companies which have been progressively incorporated into Tim Celular with the aim of rationalizing the corporate structure in Brazil.
The assessment notice includes various adjustments; the main claims may be summarized as follows: (i) non-recognition of the fiscal effects of the merger of Tim Nordeste Telecomunicações S.A. and Maxitel S.A..
(ii) non-recognition of the fiscal deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC"). The adjustments included in the assessment notice were challenged by Tim Celular, before the administrative court, with the submission of an initial defense on April 20, 2011. The Management, as confirmed by two legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters

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 notification of the application for its committal for trial for the administrative offence specified in articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001 in relation to the affairs that have involved some ex-employees and ex-collaborators of the Company charged – among other things – with offences involving corruption of public officials, with the object of acquiring information from confidential files.
Before the preliminary hearing, Telecom Italia submitted a motion for the application of plea bargaining pursuant to article 63 of legislative decree 231/2001, after having made provision, as employer, for financial reparation to be offered to those employees and ex-employees on whom illegal dossiers were compiled (and) whose names appeared on the request for committal for trial (incurring total costs of 1.8 million euros for this purpose) and after having reached a settlement with the government departments, the only parties taking civil action against the Company, of all claims for compensation related to the facts that are the object of the criminal proceedings (against payment of the sum of 750 thousand euros). In a judgment pronounced on 28 May 2010, the Judge accepted that the fines of 400 thousand euros that the Company had agreed to pay were adequate: after this judgment, Telecom Italia was definitively 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.
In a judgment on the same date, the charges of unlawful appropriation of the assets of Telecom Italia and its subsidiary Telecom Italia Latam, which had been admitted to the trial as civil parties precisely in relation to these offences, were declared to be without foundation. Both companies challenged this decision, and appealed to the Supreme Court which, in a judgment on September 20, 2011, confirmed the judgment that there is no case to answer in relation to the crimes of unlawful appropriation of the assets of Telecom Italia alleged by the Public Prosecutor. The full opinion on which this judgment was based has not yet been made available.
Thus at the end of the preliminary hearing phase, subsidiaries Telecom Italia Latam and Telecom Italia Audit and Compliance Services remained civil parties in the trial for damages deriving from crimes other than unlawful appropriation, while the Company remained part of the criminal proceedings as the entity with civil liability, pursuant to article 2049 of the Italian Civil Code, for the actions of the three ex-

employee defendants committed for trial. In this capacity, Telecom Italia has been served with conservative seizure orders for approximately 6 million euros in favour of the civil parties in the proceedings against the ex-employee defendants; all of these orders were, however, subsequently revoked by the Milan Court of Review.
The revocation orders by the Court of Review, which had been appealed by the civil parties before the Supreme Court, were confirmed by the latter in a hearing on 27 May last.
The trial phase of the proceedings opened in September 2010 before Section One of the Milan Court of Assizes. During the first sessions, Telecom Italia filed its application to be a civil party in the proceedings against all the defendants committed for trial, for all the offences of which they are accused, including the crimes of corruption and criminal conspiracy. The Company's petition to be joined as a civil party was granted by the Court on January 26, 2011. Telecom Italia is also the party with civil liability in relation to the 11 persons charged with criminal conspiracy, corruption and hacking against a total of 32 civil parties.
In the preliminary hearing phase, the Court, in its order of May 18, 2011, granted the Prosecutor's application for the admission into evidence, as body of proof, of all the dossiers that the judge in the preliminary investigation (GIP) had returned to the Prosecutor's Office during the hearing for destruction pursuant to article 240 of the Code of Penal Procedure, in which he specified that he could not grant the request for its destruction due to the enduring uncertainty about the actual unlawful provenance of the information it contained.
On June 7, 2011 Telecom Italia, as civil party to the criminal proceedings for the crimes of criminal conspiracy, corruption and hacking, filed a new application for the conservative seizure of the assets of one of the co-accused for a sum of 40 million euros to protect its interests. The Court recently granted this application, issuing an order for the conservative seizure of the assets that had previously been the subject to pre-emptive seizure, to the total value of approximately 15 million euros in favour of Telecom Italia. This decision was confirmed by the Milan Court of Review with an order dated October 4, 2011, although the total sum to be seized was reduced to approximately 2.6 million euros: Telecom Italia is challenging this order, and appealed to the Supreme Court.
In relation to the details of the requests for the Company to pay and/or indemnify third parties, it should be noted that, given the current state of play and on the basis of the elements available that can be used for estimates, it is deemed 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, which fully covers the risk, has been accrued in the financial statements.

Antitrust Case A426

On May 13, 2010, following a complaint lodged by Fastweb, the Italian Antitrust Authority (AGCM) started an investigation into an alleged abuse of dominant position by Telecom Italia. According to Fastweb, Telecom Italia carried out an exclusionary conduct with respect to 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 complainant, Telecom Italia did not provide its competitors with some pieces of information of a technical-economic nature that were allegedly essential for the submission of competitive bids, and provided its retail divisions with network services at more favorable conditions than those applied to all other operators.
Fastweb had previously filed a similar complaint to AGCom which wholly dismissed the case in a note issued on May 26, 2010.
While reiterating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns advanced in the AGCM decision to open the investigation. Considering that said proposal was not manifestly groundless, AGCM published it on its website on July 29, 2011, inviting comments from interested third parties.
Since the procedure to evaluate the undertakings is still underway, it is not possible to opine about the outcome of the proceedings.

Antitrust Case A428

On June 23, 2010, prompted by complaints filed by Wind and Fastweb, AGCM started an investigation into two alleged abuses of dominant position by Telecom Italia. Firstly, according to Wind, Telecom Italia

allegedly carried out a "*technical boycott*" strategy vis-à-vis its competitors, hindering or delaying the activation of services, by means of unjustified and spurious refusals. Moreover, according to both complainants, Telecom Italia allegedly offered its access services to final customers at economic and technical conditions that could not be matched by its competitors purchasing wholesale access services from Telecom Italia itself, only in those geographic areas of the Country in which disaggregated access services to the local network are available, and hence where other operators can oppose greater competition.
In any case, with reference to one of the complained of offers (relating to an invitation to tender issued by the Florence municipal authority), on February 1, 2011, AGCom closed its investigation on the economic terms of Telecom Italia's offer with regards to traffic services, after verifying that it could be matched by its competitors. On April 18, 2011 Fastweb challenged the AGCom decision before the Administrative Court (TAR) for Lazio, alleging that the analysis of replicability conducted by AGCom was incorrect.
While reiterating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns advanced in the AGCM decision to open the investigation. Considering that said proposal was not manifestly groundless, AGCM published it on its website on August 5, 2011, inviting comments from interested third parties.
Since the procedure to evaluate the undertakings is still underway, it is not possible to opine about the outcome of the proceedings.

Dispute for adjustments on concession charges for the years 1994-1998
Some disputes, in cases filed in recent years by Telecom Italia are still pending. These relate to the Company's request that the Ministry of Communications pay adjustments to the amounts paid in charges for concessions in the years 1994-1998.

Dispute concerning the concession charge for 1998
Telecom Italia has issued proceedings against the Presidenza del Consiglio dei Ministri (the office of the Prime Minister) before the Rome Court for compensation of the damage caused by the Italian State through appeal judgment no. 7506/09 by the Consiglio di Stato (Council of State) that, in the view of the Company, violates the principles of current European community law.
The case was also brought in the light of community jurisprudence that recognizes the right to assert the responsibility of the State in relation to violation of rights recognized in community law and injured by a judgment that has become definitive, in respect of which no other remedy may be applied. The aforementioned appeal judgment definitively denied the right of Telecom Italia to restitution of the concession charge for 1998 (totalling 386 million euros for Telecom Italia and 143 million euros for Tim, plus interest), already rejected by the Lazio regional administrative court despite the favorable and binding opinion of the European Court of Justice on 23 February 2008 concerning the conflict between EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and the national regulations that had deferred, for 1998, the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation. The Avvocatura di Stato filed an appearance and submitted a counterclaim for the same sum. The appeal to the Consiglio di Stato notified by Telecom Italia on January 15, 2011 for revocation of the judgment that is the object of the proceedings is also still pending.

FASTWEB
In September 2011 the following cases pending before the Milan Court were settled by mediation without any material impact on 2011, as a specific provision had already been made to the risk fund:

- the proceedings related to the presumed abusive nature of the Telecom Italia winback strategy in the markets for the supply of residential and non-residential fixed line telephone service and broadband access retail services (in the suit Fastweb had requested compensation totalling approximately 1,070 million euros);
- the proceedings related to presumed acts of unfair competition and misleading advertising allegedly committed by Telecom Italia as part of the "Impresa Semplice" advertising campaign, for the offer of integrated services to small and medium-sized enterprises (Fastweb had requested

compensation of approximately 65 million euros, with a subordinate claim for damages of approximately 87 million euros).

The arbitration started by Fastweb in January 2011 is continuing. By virtue of these proceedings, Fastweb requested compensation for presumed damages totalling 146 million euros suffered after the alleged non-compliance with the provisions contained in 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 filed an appearance, submitting a counterclaim.

VODAFONE

In July 2006 Vodafone brought a case for compensation for damages (initially quantified as approximately 525 million euros, and subsequently adjusted to 759 million euros) before the Milan Appeal Court. The case involves a presumed abuse of its dominant position committed by Telecom Italia, which allegedly exploited its position in the fixed telephony markets to strengthen its position in the closely connected mobile communication services market, which tended to exclude and hence damage its competitor.

In a judgment on November 2, 2011, the Milan Appeal Court declared that it was not competent in this matter and referred it to the Civil Court. The terms for the resumption of the Vodafone case before the Milan Court are pending.

H3G

In a writ issued in July 2011, H3G claimed damages of approximately 122 million euros plus interest, 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 will file an appearance, contesting the claims of the other party.

In addition, the following disputes with H3G are still outstanding:

- 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 consequent on 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 an appearance contesting the claims and submitting a counterclaim for 260 million euros;
- a challenge by Telecom Italia before the Rome Appeal Court of 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 already declared enforceable);
- a case started by H3G claiming compensation for presumed damages consequent on the alleged violation of the mobile customer portability procedures. The damages claimed have been quantified as approximately 60 million euros. Telecom Italia has filed an appearance 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 already 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) issued proceedings against Telecom Italia in the Rome Court for compensation of the presumed damages (quantified at 320 million euros) resulting from its non-prevention of the illicit downloading of films by customers of the Company accessing certain websites. According to the claimant, Telecom Italia did not adopt the necessary technical and administrative measures to prevent the illegal use of its network. Fapav also asked that the Company provide the Judicial Authorities with information that identifies the customers involved in the alleged unlawful activities.

These proceedings follow a precautionary procedure at the end of which the Rome Court excluded both the 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 limited itself to ordering the Company to supply all the information in the Company's possession on the alleged unlawful activity, apart from information that identifies the subjects involved.
Telecom Italia, which has already complied with the order, entered an appearance in this case, asking that the claims of the other party be rejected in their entirety. The Italian association of authors and publishers, SIAE, joined these proceedings to support FAPAV's argument.

EUTELIA and VOICEPLUS

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by Telecom Italia of its dominant position in the premium services market (based on the offer of the services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.
The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviours relating to the management of the Company's financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers for which, for regulatory reasons, Telecom Italia managed the revenues from the end customers on behalf of these OLOs. Telecom Italia filed an appearance, asking that the demand for compensation by rejected in its entirety.

TELEUNIT

With a writ issued in October 2009 before the Milan Appeal Court, Teleunit asked for alleged acts of abuse by Telecom Italia of its dominant position in the premium services market to be investigated. The complainant quantified its damages at a total of approximately 362 million euros. Telecom Italia filed an appearance, contesting the claims of the other party.

POSTE

There are some pending actions brought Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, concerning non-payment by Poste of services rendered under a series of contracts to supply IT goods and services. The judgments issued in the lower court established an outcome that was partially favorable to the ex-Olivetti, and have been appealed by Poste in individual rehearings.
In this respect, while a judgment of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, another judgment of the same Court declared void one of the disputed contracts. After this judgment, Poste issued a writ for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgment of the Court of Cassation 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.

Germany – AOL arbitration

In November 2008, AOL LLC and AOL Europe Sàrl ("AOL") notified Telecom Italia Deutschland Holding GmbH ("TIDE") and Telecom Italia S.p.A. of a request for arbitration before the International Chamber of Commerce in Paris, in relation to the agreement for TIDE's acquisition of the broadband assets of the AOL Time Warner group, signed in September 2006 and implemented in February 2007. The purpose of the request for arbitration was to obtain:

- a declaratory ruling that the contracts for the supply of services to a specific category of customers (the so-called Bring-Your-Own-Access or "BYOA") must not be considered to have been sold to Telecom Italia and TIDE;
- an order for the defendants to ensure that HanseNet, the German subsidiary of TIDE at that time, pays back to AOL the amount allegedly received from the BYOA customers, totalling approximately 2 million euros.

In February 2009, Telecom Italia and TIDE filed their defenses and counterclaims, requesting that AOL, after confirmation that the BYOA customers had to be assigned by AOL, should transfer them, if still

possible, and in any event pay any amount improperly collected by AOL as revenues from such customers, or compensation for the damages suffered.
The Arbitration Panel issued a partial award in November 2010, in which it declared that it had jurisdiction to decide on the request for arbitration and considered that Telecom Italia and TIDE were not entitled to the transfer of the BYOA customer category, since they did not belong to the access business transferred in 2007.
The Panel reserved its right to issue one or more subsequent awards on the matters still unresolved concerning not only AOL's request for compensation, but also the counterclaims filed by Telecom Italia and TIDE, granting time to the parties to file their defenses on these aspects. The arbitration proceeding is currently suspended.

Germany – Telefónica arbitration
On May 4, 2011, Telecom Italia and TIDE were notified of a request for arbitration before the Paris International Chamber of Commerce (ICC) made by Telefonica Germany Customer Services Gmbh (TEFG) – a German company of Telefónica group – to obtain a merely declaratory relief related to an indemnification obligation of Telecom Italia and TIDE pursuant to the share purchase agreement for the sale of HanseNet signed in December 2009.
On July 4, 2011, Telecom Italia and TIDE filed their defenses, asking that the request for arbitration by TEFG be rejected as groundless. The arbitration proceedingis currently suspended.

Greece -DELAN
In 2005, Tim International N.V. (subsequently merged with and into Telecom Italia International N.V. on June 27, 2008) sold its entire shareholding in Tim Hellas through a Stock Purchase Agreement ("SPA"). Pursuant to this contract, Tim International undertook, among other things, to indemnify the purchaser in arbitration proceedings between Tim Hellas and Delan Cellular Services S.A. ("Delan") that began in 1998.
In July 2006, Tim Hellas (whose name had changed in the meantime to Wind Hellas) informed Tim International about the issuance of an arbitration award in the Delan case that ordered Wind Hellas to compensate Delan for damages for an amount of approximately 52 million euros including interest. The arbitration award was challenged by Wind Hellas and declared null and void by the Athens Court of Appeal and in October 2007 Wind Hellas informed Tim International that the award had been declared null and void.
In March 2008, Wind Hellas informed Tim International that Delan (with the new name of Alpha Digital Television) had challenged the appeal court decision before the Greek Supreme Court, alleging a defect in the notification of the decision.
Tim International, in accordance with the provisions of the SPA, assumed the defense of Wind Hellas in the challenge before the Supreme Court. In September 2008, the Greek Supreme Court rejected the exception raised by Delan and confirmed the nullity of the award.
During 2009, Carothers Ltd., the company acting as successor of Delan, started legal proceedings both precautionary and on the merits against Wind Hellas before the Greek courts, on grounds similar to those raised in the arbitration case. Wind Hellas in turn summoned Telecom Italia International to appear, as guarantor, allegedly on the basis of the indemnification obligations contained in the SPA. The hearing for the pleading of both the case started by Carothers Ltd. against Wind Hellas and that started by Wind Hellas against Telecom Italia International based on the alleged indemnification obligations contained in the Stock Purchase Agreement was held on June 1, 2011.

During 2010 Wind Hellas also summoned Telecom Italia International to appear as a third party in another legal case started in 2006 by Wind Hellas against what was at the time Delan (now Carothers), to challenge the validity of the arbitration clause in relation to the Delan arbitration, as well as to verify the absence of liability for the damages of Wind Hellas.

► b) Other information

Mobile telephony: investigation of Dealers

The activities carried out in the first nine months of the year, to verify and regularize the prepaid SIM cards which had been activated in 2005-2008 and not correctly associated with a customer identity document, reduced the number outstanding at the start of the year by 35%, falling to approximately 468 thousand cards at September 30, 2011 (at the start of the activities aimed at regularizing them the SIM cards not correctly associated with a customer identity document totaled approximately 5.5 million). A new regularization process which involves the post-sales blocking of all the remaining cards was introduced in July 2011. Hence these cards may only be used for topping up operations, signing up to offers, changing contract profile, etc. after they have been regularized.

The investigations of the Milan Public Prosecutor into SIM cards with incorrect user registrations, previously examined in the Greenfield Project – the results of which were illustrated in the Annex to the 2010 Corporate Governance and Shareholding Structure report – and into the phenomenon, noted in the Greenfield report by Deloitte Financial Advisory Services on irregular postponement of the natural expiry date (13 months after the last topup or other chargeable post-sales action) of approximately 2.5 million prepaid SIM cards, continued. Telecom Italia, leveraging on its previous commitment to the regularization of the irregular SIM cards, is continuing to provide every assistance to the Judicial Authorities.

Declaration by the Manager Responsible for Preparing the Corporate Financial Reports

The manager responsible for preparing the corporate financial reports declares, pursuant to paragraph 2, art. 154-bis of the Consolidated Law on Finance, that the accounting disclosure contained in the Interim Report at September 30, 2011 of the Telecom Italia Group corresponds to the Company's documents, accounting records and entries.

The Manager Responsible for Preparing
the Corporate Financial Reports

Andrea Mangoni