

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF AUGUST 2010

Telecom Italia S.p.A.

(Translation of registrant's name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

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

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

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

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the United States Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements, which reflect management's current views with respect to certain future events, trends and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside of our control, that could significantly affect expected results of future events.

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

- our ability to successfully implement our strategy over the 2010-2012 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- the impact of the global recession in the principal markets in which we operate;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing and international mobile roaming;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- our services are technology-intensive and the development of new technologies could render such services non-competitive;
- the impact of political developments in Italy and other countries in which we operate;

- the impact of fluctuations in currency exchange and interest rates;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil);
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

Annual Report

2009

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

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Annual Report 2009

Telecom Italia Group

Annual Report 2009

Telecom Italia Group

Letter to the Shareholders

Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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Report on Operations 2009

Letter to the Shareholders

Key Operating and Financial Data -

Telecom Italia Group

2009 Highlights

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

Organic EBITDA and EBITDA margin

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

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

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

Operating cash flow and financial discipline

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

Profit before tax from continuing operations

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

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

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

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Report on Operations 2009

Telecom Italia Group

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

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

-

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

-

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

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

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

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

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

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

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

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

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

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

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

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Report on Operations 2009

Telecom Italia Group

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

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

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Report on Operations 2009

Telecom Italia Group

**Consolidated
Operating and
Financial Data**

(millions of euros)

2009

2008

2007

2006

2005

Revenues

27,163

29,000

20

	29,802
	29,785
	29,193
EBITDA ⁽¹⁾	
	11,115
	11,090
	11,295
	12,498
	12,468
EBIT⁽¹⁾	
	5,493
	5,437
	5,738
	7,269
	7,548
Profit before tax from continuing operations	
	3,339
	2,894
	4,120
	5,366
	5,596
Profit from continuing operations	
	2,218
	2,217
	2,459
	21

	2,855
	3,200
Profit (loss) from Discontinued operations/Non-current assets held for sale	(622)
	(39)
	(99)
	(159)
	401
Profit for the year	1,596
	2,178
	2,360
	2,696
	3,601
Profit for the period attributable to owners of the Parent	1,581
	2,177
	2,353
	2,707
	3,127
Investments:	

Industrial

4,543

5,040

5,031

4,698

4,916

Financial

6

6

637

206

14,934

**Consolidated
Financial Position
Data (*) (**)**

(millions of euros)

12/31/2009

12/31/2008

12/31/2007

12/31/2006

12/31/2005

Total assets

86,181

86,223

88,593

90,322

96,492

Total equity

27,120

26,328

26,494

26,702

	26,896
- attributable to owners of the Parent	
	25,952
	25,598
	25,431
	25,622
	25,573
- attributable to non-controlling interests	
	1,168
	730
	1,063
	1,080
	1,323
Total liabilities	
	59,061
	59,895
	62,099
	63,620
	69,596
Total equity and liabilities	
	86,181
	86,223
	88,593
	90,322
	25

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

66,366

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

55.6%

56.7%

57.5%

58.2%

59.5%

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

(number)

12/31/2009

12/31/2008

12/31/2007

12/31/2006

12/31/2005

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

71,384

75,320

79,238

80,373

83,187

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

2,205

2,505

4,191

2,836

3,344

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

(equivalent number)

2009

2008

2007

2006

2005

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

69,964

73,508

75,735

77,374

78,258

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

2,168

3,277

3,893

2,898

6,089

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Report on Operations 2009

Telecom Italia Group

**Consolidated
Profit Ratios**

2009

2008

2007

2006

2005

EBITDA⁽¹⁾ /
Revenues

40.9%

38.2%

37.9%

42.0%

42.7%

EBIT⁽¹⁾ /
Revenues
(ROS)

20.2%

18.7%

19.3%

24.4%

25.9%

Adjusted net
financial debt
/EBITDA⁽¹⁾

3.1

3.1

3.2

3.0

3.2

**Operating
Data (*)**

12/31/2009

12/31/2008

12/31/2007

12/31/2006

12/31/2005

Fixed-line
network
connections
in Italy at
year-end
(thousands)

18,525

20,031

22,124

23,698

25,049

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

16,097

17,352

19,221

20,540

21,725

Mobile lines
at year-end
(thousands)

71,958

71,199

67,585

57,860

48,747

of which
Mobile lines
in Italy
(thousands)

30,856

34,797

36,331

32,450

28,576

*of which
Mobile lines
in Brazil
(thousands)*

41,102

36,402

31,254

25,410

20,171

**Broadband
accesses in
Italy at
year-end
(thousands)**

8,741

8,134

7,590

6,770

5,707

*of which
retail
broadband
accesses
(thousands)*

7,000

6,754

6,427

5,600

3,920

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

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

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

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

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

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

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

Moreover:

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

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

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

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

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

Report on Operations 2009

Telecom Italia Group

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

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

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

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

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

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

During 2008, the following principal changes had taken place:

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

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

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Report on Operations 2009

Telecom Italia Group

Corporate Boards at December 31, 2009

Board of Directors

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

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

At December 31, 2009, the board of directors of Telecom Italia is composed of 14 directors:

Chairman

Gabriele Galateri di Genola

Chief Executive Officer

Franco Bernabè

Directors

César Alierta Izuel

Paolo Baratta (independent)

Tarak Ben Ammar

Roland Berger (independent)

Elio Cosimo Catania (independent)

Jean Paul Fitoussi (independent)

Berardino Libonati

Julio Linares López

Gaetano Micciché

Aldo Minucci

Renato Pagliaro

Luigi Zingales (independent)

Secretary to the Board

Antonino Cusimano

The board of directors formed the following internal committees:

-

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

-

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

-

Nomination and Remuneration Committee, composed of: Elio Cosimo Catania (Chairman), Berardino Libonati and Luigi Zingales.

Board of Statutory Auditors

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

The new board of statutory auditors is composed as follows:

Chairman

Enrico Maria Bignami

Acting Auditors

Gianluca Ponzellini

Lorenzo Pozza

Salvatore Spiniello

Ferdinando Superti Furga

Alternate Auditors

Silvano Corbella

Maurizio Lauri

Vittorio Giacomo Mariani

Ugo Rock

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

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Telecom Italia Group

Independent Auditors

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

Manager responsible for preparing the corporate financial reports

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

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Report on Operations 2009

Telecom Italia Group

Macro-Organization Chart at December 31, 2009

Telecom Italia Group

Note should be taken that:

- beginning January 1, 2010, the **Disposals** function has been abolished.
- beginning February 10, 2010, the **Public Affairs** function and the position of **Executive Assistant** to the CEO have been abolished. On the same date, the following functions have been set up and report directly to the Chairman: **Institutional Relations** entrusted to Franco Rosario Brescia and **Territorial Relations and Institutional Marketing** headed by Paolo Annunziato.

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Report on Operations 2009

Telecom Italia Group

Information for Investors

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

Share capital

euro 10,673,865,180.00

Number of ordinary shares
(par value 0.55 euros each)

13,380,906,939

Number of savings shares
(par value 0.55 euros each)

6,026,120,661

Number of Telecom Italia
ordinary treasury shares

37,672,014

Number of Telecom Italia
ordinary shares held by
Telecom Italia Finance
S.A.

124,544,373

Percentage of treasury
shares held by the Group
to total share capital

0.84%

Market capitalization
(based on December 2009
average prices)

Shareholders

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

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

On the same date, the other shareholders signed a Modifying Agreement and the renewal of the Shareholders Agreement under which it was agreed (i) to make, effective April 28, 2010, some modifications (both subjective and objective) to the Shareholders Agreement (which remains in force until the expiration date of April 28, 2010) and (ii) to renew the Shareholders Agreement, as modified, for a further three years and therefore effective from April 28, 2010 to April 27, 2013. The shareholders have the right to ask for the withdrawal of Telco via communication to be sent between October 1, and October 28, 2012; each shareholder may also withdraw from the Shareholders Agreement

to be communicated in the period between April 1, and April 28, 2011. The shareholders also agreed that for the purpose of Sintonia's withdrawal they could take into consideration, in accord with Sintonia, technical forms other than withdrawal, with the understanding that the common objective is to complete the exit in the shortest technical time.

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Telecom Italia Group

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

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

Major holdings in share capital

At December 31, 2009, taking into account the results in the Shareholders Book, communications sent to CONSOB and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are as follows:

Holder	Type of ownership	% stake in ordinary share capital
Telco S.p.A.	Direct	22.45%
Findim Group S.A.	Direct	4.99%

Sintonia S.A. (*)

Direct

2.06%

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

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

.

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

.

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

.

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

Common representatives

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

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

.

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

.

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

.

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

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Report on Operations 2009

Telecom Italia Group

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

Relative performance by Telecom Italia S.p.A.

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

(*) Stock market prices. Source: Reuters.

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

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

(*) Stock market prices. Source: Reuters.

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Telecom Italia Group

Relative performance by Tim Participações S.A.

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

(*)Stock market prices. Source: Reuters.

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

Rating at December 31, 2009

Rating

Outlook

STANDARD & POOR'S

BBB

Stable

MOODY'S

Baa2

Stable

FITCH RATINGS

BBB

Stable

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

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

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

Telecom Italia Group

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

Telecom Italia S.p.A.

(euros)

2009

2008

2007

**Share
prices**
(December
average)

- Ordinary

1.08

1.09

2.18

- Savings

0.76

0.73

1.68

**Dividends
per share
(1)**

- Ordinary

0.050

0.050

0.080

- Savings

0.061

0.061

0.091

**Pay Out
Ratio(1)
(*)**

74%

70%

86%

**Market to
Book Value
(**)**

0.83

0.82

1.67

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

- Ordinary

4.63%

4.59%

3.67%

- Savings

8.03%

8.36%

5.42%

Telecom Italia Group

(euros)

2009

2008

2007

Basic
earnings per
share
ordinary
shares

0.08

0.11

0.12

Basic
earnings per
share
savings
shares

0.09

0.12

0.13

(1)

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

(*) Dividends paid in the following year/Profit for the year.

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

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

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Report on Operations 2009

Telecom Italia Group

Review of Operating and Financial Performance - Telecom Italia Group

2009 Consolidated Operating Performance

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

Change (a-b)	
(millions of euros)	
	2009
	2008
	amount
	%
	%
	organic
	(a)
	(b)

REVENUES

27,163

	29,000
	(1,837)
	(6.3)
	(5.6)
EBITDA	
	11,115
	11,090
	25
	0.2
	(0.5)
<i>EBITDA MARGIN</i>	
	40.9%
	38.2%
	2.7 pp
<i>ORGANIC EBITDA MARGIN</i>	
	41.7%
	39.5%
	2.2 pp
EBIT	
	5,493
	5,437
	56
	64

	1
	0.5
<i>EBIT MARGIN</i>	
	20.2%
	18.7%
	1.5 pp
<i>ORGANIC EBIT MARGIN</i>	
	21.2%
	19.9%
	1.3 pp
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	
	3,339
	2,894
	445
	15.4
PROFIT FROM CONTINUING OPERATIONS	
	2,218
	2,217
	1
	0.0
	65

PROFIT (LOSS) FROM
DISCONTINUED
OPERATIONS/NON-CURRENT
ASSETS HELD FOR SALE

(622)

(39)

(583)

o

PROFIT FOR THE YEAR

1,596

2,178

(582)

(26.7)

**PROFIT FOR THE YEAR
ATTRIBUTABLE TO
OWNERS OF THE PARENT**

1,581

2,177

(596)

(27.4)

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

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Report on Operations 2009

Telecom Italia Group

Revenues

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

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

.

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

.

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

.

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

The breakdown of revenues by operating segment is the following:

2009
2008
Change
(millions of
euros)

% of total

% of total

amount

%

%

organic

Domestic

21,662

79.7

23,227

80.1

(1,565)

(6.7)

(6.8)

Brazil

5,022

18.5

5,208

18.0

(186)

(3.6)

(0.3)

Media,
Olivetti and
Other
Operations

738

2.7

857

3.0

(119)

(13.9)

*Adjustments
and
Eliminations*

(259)

(0.9)

(292)

(1.1)

33

**Total
consolidated
revenues**

27,163

100.0

29,000

100.0

(1,837)

(6.3)

(5.6)

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

(1)The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), is equal to 2.76933 in 2009 and 2.67864 in 2008. The effect of the change in the exchange rates is calculated applying, to the year under comparison, the foreign currency translation rates used for the current year.

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Telecom Italia Group

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

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

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

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

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

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

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

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

EBITDA

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

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

	2009
	2008
	Change
	(millions of euros)
	<i>% of total</i>
	<i>% of total</i>
	amount
	%
	%
	organic

Domestic

9,895

89.0

9,959

89.8

(64)

(0.6)

(2.1)

*EBITDA
margin*

45.7

42.9

2.8 *pp*

2.3 *pp*

Brazil

1,255

11.4

1,217

11.0

	38
	3.1
	9.6
<i>EBITDA</i>	
<i>margin</i>	
	25.0
	23.4
	1.6 pp
	2.3 pp
Media, Olivetti and Other Operations	
	(29)
	(0.3)
	(70)
	(0.6)
	41
	58.6
<i>Adjustments</i>	
<i>and</i>	
<i>Eliminations</i>	
	(6)
	(0.1)
	(16)

(0.2)

10

**Total
consolidated
EBITDA**

11,115

100.0

11,090

100.0

25

0.2

(0.5)

*EBITDA
margin*

40.9

38.2

+2.7 pp

+2.2 pp

21

Report on Operations 2009

Telecom Italia Group

The following chart summarizes the changes in EBITDA:

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

(millions of
euros)

2009

2008

Change

Disputes and settlements

154

34

120

Costs for services of the Brazil Business Unit associated with the resolution of a dispute

22

-

22

Other

36

3

33

Expenses for mobility under Law 223/91

-

292

(292)

Total non-organic (revenues and income) / costs and expenses

212

329

(117)

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

Acquisition of goods and services

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

In detail:

(millions of
euros)

2009

2008

Change

Purchases of
goods

1,852

2,707

(855)

Portion of
revenues to paid
to other
operators and
interconnection
costs

4,282

4,927

(645)

Commercial
and advertising
costs

2,012

1,971

41

Power,
maintenance
and outsourced
services

1,254

1,280

(26)

Rent and leases

572

572

-

Other service
expenses

1,508

1,663

(155)

**Total
acquisition of
goods and
services**

11,480

13,120

(1,640)

*EBITDA
margin*

42.3

45.2

(2.9) *pp*

22

Report on Operations 2009

Telecom Italia Group

Employee benefits expenses

Details are as follows:

(millions of
euros)

2009

2008

Change

Employee
benefits
expenses
Italian
companies:

Ordinary
expenses of
employees

3,467

3,518

(51)

Expenses
for mobility
under Law
223/91

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

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

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

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

The average salaried number of the workforce is the following:

(equivalent
number)

2009

2008

Change

Average
salaried
workforce
Italy

60,324

63,145

(2,821)

Average
salaried
workforce

Foreign ⁽¹⁾
 9,640
 10,363
 (723)

**Total
 average
 salaried
 workforce**
⁽²⁾
69,964
73,508
(3,544)

Non-current
 assets held
 for sale
 Foreign ⁽³⁾
 2,168
 3,277
 (1,109)

**Total
 average
 salaried
 workforce
 including
 Non-current
 assets held
 for sale**
72,132
76,785
(4,653)

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

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

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

The headcount at December 31, 2009 is the following:

(number)

12/31/2009

12/31/2008

Change

Headcount
Italy

60,872

64,242

(3,370)

Headcount
Foreign

10,512

11,078

(566)

Total ⁽¹⁾

71,384

75,320

(3,936)

Non-current
assets held
for sale
Foreign

2,205

2,505

(300)

**Total -
including
Non-current
assets held
for sale**

73,589

77,825

(4,236)

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

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

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Report on Operations 2009

Telecom Italia Group

Other income

Details are as follows:

(millions of
euros)

2009

2008

Change

Late payment
fees charged
for telephone
services

71

86

(15)

Recovery of
costs for
employees,
purchases and
services
rendered

46

51

(5)

Capital and
operating

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

Other operating expenses

Details are as follows:

(millions of euros)

2009

2008

Change

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

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

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

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

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

Depreciation and amortization

Details are as follows:

(millions of
euros)

2009

2008

Change

Amortization
of intangible
assets with
an finite
useful life

2,251

2,324

(73)

Depreciation
of property,
plant and
equipment
owned and
leased

3,300

3,352

(52)

Total

5,551

5,676

(125)

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

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Report on Operations 2009

Telecom Italia Group

Net losses on disposals of non-current assets

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

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

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

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

Impairment reversals (losses) on non-current assets

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

EBIT

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

The following chart summarizes the changes in EBIT:

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

(millions of
euros)

2009

2008

Change

Non-organic
(income)
expenses
already
described
under
EBITDA

212

329

(117)

Losses
(Gains) on
disposals of
buildings,
investments
and
intangible
assets

50

(34)

84

Impairment
loss BBNed

6

-

6

Other
expenses

-

(1)

1

**Total
Non-organic
(revenues
and income)
/ costs and
expenses**

268

294

(26)

25

Report on Operations 2009

Telecom Italia Group

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

Details are as follows:

(millions
of euros)

2009

2008

Change

ETECSA

54

53

1

Other

13

11

2

Total

67

64

Other income (expenses) from investments

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

Finance income (expenses)

Details are as follows:

(millions of euros)

2009

2008

Change

Fair value
measurement of call
options on 50% of
Sofora
Telecomunicaciones
share capital

60

(190)

250

Income (expenses)
on bond buybacks

-

62

(62)

Early closing of
derivative
instruments

22

19

3

Writedown of
receivables from
Lehman Brothers

-

(58)

58

Accrual to
provisions for
interest (Telecom
Italia Sparkle case)

(10)

(10)

-

Net finance
expenses, fair value
adjustments of
derivatives and
underlyings and
other items

(2,242)

(2,434)

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

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

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

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

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

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

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

Income tax expense

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

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

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

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Telecom Italia Group

.

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

.

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

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

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

.

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

.

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

.

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

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

.

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

.

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

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

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

Profit for the year

The profit for the year can be detailed as follows:

(millions of
euros)

2009

2008

**Profit for the
year**

1,596

2,178

Attributable to:

**Owners of the
Parent:**

Profit (loss) from
continuing

operations

2,203

2,216

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

(622)

(39)

**Profit (loss)
attributable to
owners of the
Parent**

1,581

2,177

**Non-controlling
interests:**

Profit (loss) from
continuing
operations

15

1

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

-

-

**Profit (loss)
attributable to
Non-controlling
interests**

15

1

27

Report on Operations 2009

Telecom Italia Group

Consolidated financial position performance

**Financial position
structure**

(millions of euros)

12/31/2009

12/31/2008

Change

12/31/2008

Restated (1)

Restated

(a)

(b)

(a-b)

ASSETS

Non-current assets	
	68,498
	69,567
	(1,069)
	70,957
<i>Goodwill</i>	
	43,627
	43,230
	397
	43,891
<i>Intangible assets with a finite useful life</i>	
	6,282
	6,154
	128
	6,492
<i>Tangible assets</i>	
	14,902
	15,116
	(214)
	15,662
<i>Other non-current assets</i>	
	3,687
	110

	5,067
	(1,380)
	4,912
Current assets	
	16,450
	14,904
	1,546
	14,684
<i>Inventories, Trade and miscellaneous receivables and other current assets</i>	
	7,870
	8,383
	(513)
	8,480
<i>Current income tax receivables</i>	
	79
	73
	6
	73
<i>Investments</i>	
	39
	39
	39
	111

*Securities other than
investments, Financial
receivables and other
non-current financial
assets, Cash and cash
equivalents*

8,462

6,409

2,053

6,092

Discontinued
assets/Non-current
assets held for sale

1,233

1,752

(519)

9

of a financial nature

81

20

61

-

*of a non-financial
nature*

1,152

1,732

(580)

9

86,181

112

86,223

(42)

85,650

**EQUITY AND
LIABILITIES**

Equity

27,120

26,328

792

26,328

Non-current liabilities

39,806

40,303

(497)

40,356

Current liabilities

18,288

18,697

(409)

18,966

Liabilities directly
associated with
Discontinued
operations/Non-current

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

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

Non-current assets

.

Goodwill: increased 397 million euros due to the recognition of goodwill for 96 million euros on the acquisition of the investment in Intelig Telecomunicações Ltda by the Brazil Business Unit and to the fluctuation in the exchange

rates of the Brazilian companies (+307 million euros), and also to the impairment loss, recorded on the basis of the results of the impairment test, of 6 million euros on the goodwill attributed, within Other operations, to the consolidated company BBNed.

.

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

additions (+2,017 million euros);

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

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

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Telecom Italia S.p.A.

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

additions (+2,526 million euros);

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

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

Discontinued assets/Non-current assets held for sale

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

assets of a financial nature for 81 million euros;

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

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

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

Consolidated equity

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

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

(millions of euros)

2009

2008

**At the beginning
of the year
(historical data)**

26,856

26,985

Restatement for
errors (*)

(497)

(487)

Change in
accounting
principles (**)

(31)

(4)

**At the beginning
of the year
(restated)**

26,328

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

26,328

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

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

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Telecom Italia Group

Net financial debt and financial flows

Net debt is composed as follows:

Net financial debt

(millions of euros)

12/31/2009

12/31/2008

Change

12/31/2008

Restated (1)

Restated

(a)

(b)

(a-b)

**NON-CURRENT
FINANCIAL
LIABILITIES**

Bonds

26,369

25,680

689

25,680

Amounts due to banks,
other financial payables
and liabilities

8,818

9,134

(316)

9,134

Finance lease liabilities

1,565

1,694

(129)

1,713

36,752

36,508

244

36,527

**CURRENT
FINANCIAL
LIABILITIES ***

Bonds

3,667

4,497

(830)

4,497

Amounts due to banks,
other financial payables
and liabilities

3,069

1,496

1,573

1,496

Finance lease liabilities

250

266

(16)

274

6,986

6,259

727

6,267

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

659

546

113

-

**GROSS FINANCIAL
DEBT**

44,397

43,313

1,084

42,794

**NON-CURRENT
FINANCIAL ASSETS**

Securities other than
investments

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

Financial receivables
and other current
financial assets

(1,115)

(828)

(287)

(491)

Cash and cash
equivalents

(5,504)

(5,396)

(108)

(5,416)

(8,462)

(6,409)

(2,053)

(6,092)

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

(81)

(20)

(61)

-

FINANCIAL ASSETS

(9,650)

(9,274)

(376)

(8,755)

**NET FINANCIAL
DEBT CARRYING
AMOUNT**

34,747

34,039

708

34,039

*Reversal of fair value
measurement of
derivatives and*

*related financial
assets/liabilities*

(798)

487

(1,285)

487

**ADJUSTED NET
FINANCIAL DEBT**

33,949

34,526

(577)

34,526

Detailed as follows:

<i>TOTAL ADJUSTED GROSS FINANCIAL DEBT</i>	
	42,980
	41,745
	1,235
	41,226
<i>TOTAL ADJUSTED FINANCIAL ASSETS</i>	
	(9,031)
	(7,219)
	(1,812)
	(6,700)

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

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

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

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying.

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

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

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

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

Treasury policies

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

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

-

allocating liquidity where necessary

-

obtaining excess cash resources from the Group companies

-
guaranteeing an adequate level of liquidity compatible with individual needs

-
acting on behalf of its subsidiaries to negotiate bank lines

-
providing financial consulting services to its subsidiaries

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

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Telecom Italia Group

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

**Net operating free
cash flow**

(millions of euros)

2009

2008

Change

EBITDA

11,115

11,090

25

Capital expenditures
on an accrual basis

(4,543)

(5,040)

497

Change in net
operating working
capital:

(185)

(397)

212

*Change in
inventories*

(30)

(74)

44

*Change in trade
receivables and net
amounts due on
construction
contracts*

336

737

(401)

*Change in trade
payables (*)*

(376)

(1,008)

632

*Other changes in
operating
receivables/payables*

(115)

(52)

(63)

Change in provisions
for employees
benefits

(173)

233

(406)

Change in operating
provisions and Other
changes

84

(250)

334

**Net operating free
cash flow**

6,298

5,636

662

% of Revenues

23.2

19.4

3.8 pp

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

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

Capital expenditures flow

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

(millions of euros)

2009

2008

Change

% of total

% of total

Domestic

3,523

77.5

3,658

72.6

(135)

Brazil other
investments

964

21.2

871

17.3

93

Brazil 3G
license
purchase

-

-

477

9.4

(477)

Media,
Olivetti and
Other
Operations

64

1.4

79

1.6

(15)

*Adjustments
and
Eliminations*

(8)

(0.1)

(45)

(0.9)

37

Total**4,543****100.0****5,040****100.0****(497)***% of
Revenues*

16.7

17.4

(0.7)pp

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

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

Disposal of investments and other divestitures flow

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

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

Financial investments and treasury shares buyback flow

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

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

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

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

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

Sales of receivables to factoring companies

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

Gross financial debt

Bonds

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

The change in bonds during 2009 is as follows:

(millions of original
currency)

currency

amount

NEW ISSUES

Issue date

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

Euro

500

1/22/2009

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

Euro

650

3/19/2009

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

Euro

850

3/19/2009

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

GBP

750

5/26/2009

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

USD

1,000

6/18/2009

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

USD

1,000

6/18/2009

REPAYMENTS

Repayment date

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

Euro

1,450^(*)

2/9/2009

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

Euro

110

3/30/2009

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

Euro

1,849(**)

7/30/2009

BUYBACKS

Buyback period

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

Euro

253.77

January June

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

Notes maturing
June 2010

Euro

20.00

March May

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

Euro

53.75

April May

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

Euro

2.68

October

NOTES

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

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

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

.

give investors a
further possibility
of monetizing
their positions;

.

partially repay
some debt
securities before
maturity,
increasing the
overall return on
the Group's
liquidity without
inviting any
additional risks.

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

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

Revolving Credit Facility and Term Loan

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

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Telecom Italia Group

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

12/31/2009

12/31/2008

(billions of
euros)

Agreed

Drawn down

Agreed

Drawn down

Term Loan
expiring
2010

1.5

1.5

1.5

1.5

Revolving
Credit

Facility
expiring
2014

8.0

1.5

8.0

1.5

Total

9.5

3.0

9.5

3.0

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

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

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

With regard to Lehman Brothers Bankhaus AG's commitment, the Telecom Italia Group has not received any communication from Lehman Brothers Bankhaus AG, or from its representatives or directors or agent of the committed facilities which, at this time, entails changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc.

Maturities of financial liabilities and average cost of debt

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

The average cost of the Group's debt, considered as the cost for the period calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is equal to about 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amount, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the consolidated financial statements at December 31, 2009 of the Telecom Italia Group.

Current financial assets and liquidity margin

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

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

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

In particular:

.

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

-

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

-

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

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

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

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

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

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

**Adjusted net
financial debt**

(millions of
euros)

12/31/2009

9/30/2009

Change

**NET
FINANCIAL
DEBT
CARRYING
AMOUNT**

34,747

35,506

(759)

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

(798)

(413)

(385)

**ADJUSTED
NET
FINANCIAL
DEBT**

33,949

35,093

(1,144)

*Detailed as
follows:*

**TOTAL
ADJUSTED
GROSS
FINANCIAL
DEBT**

42,980

42,621

359

**TOTAL
ADJUSTED
NET
FINANCIAL
ASSETS**

(9,031)

(7,528)

(1,503)

Telecom Italia Group

Events Subsequent to December 31, 2009

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

Business Outlook for the Year 2010

As for the Telecom Italia Group's outlook for the current year, the objectives linked with the principal economic indicators, as outlined in the Business Plan 2010-2012, are, for the full year 2010:

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

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

•
Capital expenditures: approximately 4.3 billion euros;

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

Principal risks and uncertainties

The business outlook for 2010 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group's control.

The following are the main risks and uncertainties concerning the Telecom Italia Group's activities in 2010.

Macroeconomic outlook

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

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

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

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

Telecommunications market outlook

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

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

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

Telecom Italia Group

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

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

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

Financial risks

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

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

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

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

Consolidated Financial Statements Telecom Italia Group

Separate Consolidated Income Statements

Telecom Italia Group

Consolidated Statements of Comprehensive Income

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

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Consolidated Statements of Financial Position

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

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Consolidated Statements of Cash Flows

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Additional Cash Flow Information

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Telecom Italia Group

Highlights The Business Units of the Telecom Italia Group

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

.

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

.

Brazil Business Unit: includes telecommunications operations in Brazil;

.

Media Business Unit: includes television network operations and management;

.

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

.

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

As a result of including HanseNet in Discontinued Operations, the European BroadBand Business Unit is no longer presented; the other companies of that Business Unit have become part of Other Operations. For purposes of comparison, the disclosure by operating segment for the periods under comparison has been consistently restated:

Revenues

EBITDA

EBIT

**Capital
expenditures**

**Headcount at
year-end
(number)**

(millions of
euros)

2009

2008

2009

2008

2009

2008

2009

2008

2009

2008

Domestic

21,662

23,227

9,865

9,959

5,394

5,405

3,523

3,658

58,736

61,816

Brazil

5,022

5,208

1,255

173

1,217

209

189

964

1,348

9,783

10,285

Media

230

287

(9)

(59)

(80)

(113)

53

50

757

967

Olivetti

350

352

(14)

(30)

(19)

(37)

4

174

3

1,098

1,194

Other
Operations

158

218

(6)

19

(34)

(15)

8

26

1,010

1,058

*Adjustments
and
Eliminations*

(259)

(292)

(6)

(16)

23

8

(9)

(45)

-

175

-
**Consolidated
total**

27,163

29,000

11,115

11,090

5,493

5,437

4,543

5,040

71,384

75,320

44

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Telecom Italia Group

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

12/31/2009

12/31/2008

12/31/2007

**DOMESTIC
FIXED**

Fixed-line
network
connections in
Italy at
period-end
(thousands)

18,525

20,031

22,124

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

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

Virgilio
average daily
single visitors
(millions)

3.2

2.5

2.1

**Network
infrastructure
in Italy:**

- access
network in
copper
(millions of km
- pair)

110.5

109.3

106.8

- access and
carrier network
in optical fiber
(millions of km
- fiber)

4.1

3.9

3.8

**Network
infrastructure
abroad:**

- European
backbone (km
of fiber)

55,000

55,000

55,000

-
Mediterranean
(km of
submarine
cable)

7,000

7,000

7,000

- South
America (km of
fiber)

30,000

30,000

30,000

Total traffic:

Minutes of
traffic on
fixed-line
network
(billions)

134.4

144.3

156.8

- Domestic
traffic

115.6

125.3

140.1

- International
traffic

18.8

19.0

16.7

**DOMESTIC
MOBILE**

Number of
lines at
period-end
(thousands)

30,856

34,797

36,331

*of which
prepaid lines
(thousands) ⁽¹⁾*

24,398

28,660

30,834

Change in lines
(%)

(11.3)

(4.2)

12.0

Churn rate ⁽²⁾

30.1

23.6

16.4

Total outgoing
traffic per
month
(millions of
minutes)

2,982

3,054

2,766

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

4,260

4,316

4,052

Average
monthly
revenues per
line ⁽³⁾

20.0

20.0

22.2

BRAZIL

Number of
lines at
period-end
(thousands)

41,102

36,402

31,254

MEDIA

La7 audience
share Free to
Air (analog
mode)

(average during
period, in %)

3.0

3.1

3.0

La7 audience
share Free to
Air (analog
mode)

(last month of
period, in %)

2.9

3.0

3.1

(1) Excluding not human SIM.

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

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

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Report on Operations 2009

Telecom Italia Group

The Business Units of the Telecom Italia Group

Domestic

The Business Unit

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

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

(* Principal companies: Telecom Italia S.p.A., Matrix S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., Path.Net S.p.A..

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

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

.

Core Domestic: Core Domestic includes all telecommunications activities inherent to the Italian market. Revenues indicated in the tables that follow are divided according to the net contribution of each market segment to the CGU's results, excluding infrasegment transactions. The sales market segments defined on the basis of the new customer centric organizational model are as follows:

.

Consumer: Consumer comprises the aggregate of voice and internet services products managed and developed for persons and families in the fixed and mobile telecommunications markets, public telephony and the web portal/services of the company Matrix;

.

Business: Business is constituted by the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHO (Small Office Home Office) in the fixed and mobile telecommunications markets;

.

Top: Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;

.

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

.

Other (support structures): Other includes:

§

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

§

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

•

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

Main operating and financial data

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

Domestic Business unit

(millions of euros)

2009

2008

Change

amount

%

% organic

Revenues

21,662

23,227

(1,565)

(6.7)

(6.8)

EBITDA

9,895

9,959

(64)

(0.6)

(2.1)

*EBITDA
margin*

45.7

42.9

2.8 *pp*

2.3 *pp*

EBIT

5,394

5,405

(11)

(0.2)

(1.6)

EBIT margin

24.9

23.3

1.6 pp

1.4 pp

Capital
expenditures

3,523

3,658

(135)

(3.7)

Headcount at
year-end
(number)

58,736

61,816

(3,080)

(5.0)

Core Domestic

(millions of
euros)

2009

2008

Change

amount

%

% organic

Revenues ⁽¹⁾

. *Consumer*

. *Business*

. *Top*

. *National
Wholesale*

. *Other*

20,579

10,999

3,730

3,688
1,996
166
22,104
12,195
4,124
3,819
1,738
228

(1,525)
(1,196)
(394)
(131)
258
(62)
(6.9)
(9.8)
(9.6)
(3.4)
14.8
n.s.
(6.9)
(9.8)
(9.5)
(3.4)

14.9

n.s.

EBITDA

9,561

9,592

(31)

(0.3)

(1.7)

*EBITDA
margin*

46,5

43,4

3.1 pp

2.5 pp

EBIT

5,190

5,163

27

0.5

(0.9)

EBIT margin

25.2

23.4

1.8 pp

1.6 pp

Capital
expenditures

3,434

3,501

(67)

(1.9)

Headcount at
year-end
(number)

57,467

60,539

(3,072)

(5.1)

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

Report on Operations 2009

The Business Unit of the Telecom Italia Group

International Wholesale

(millions of
euros)

2009

2008

Change

amount

%

% organic

Revenues

*. of which
third parties*

1,710

1,208

1,830

1,267

(120)

(59)

(6.6)

(4.7)

(7.1)

(5.5)

EBITDA

350

375

(25)

(6.7)

(8.2)

***EBITDA
margin***

20.5

20.5

EBIT

209

236

(27)

(11.4)

(13.8)

EBIT margin

12.2

12.9

Capital
expenditures

122

163

(41)

(25.2)

(26.1)

Headcount at
year-end
(number)

1,269

1,277

(8)

(0.6)

Revenues

Core Domestic Revenues

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

•

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

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

•

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

•

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

The Business Unit of the Telecom Italia Group

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

International Wholesale Revenues

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

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

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

(millions of
euros)

2009

2008

Change %

**Market
segment**

Total

Fixed (*)

Mobile(*)

Total

Fixed (*)

Mobile(*)

Total

Fixed (*)

Mobile(*)

Consumer

10,999

5,037

6,251

12,195

5,285

7,270

(9.8)

(4.7)

(14.0)

Business

3,730

2,472

1,315

4,124

2,765

1,440

(9.6)

(10.6)

(8.7)

Top

3,688

2,956

823

3,819

3,053

824

(3.4)

(3.2)

(0.1)

**National
Wholesale**

1,996

2,758

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

(6.9)

(1.4)

(11.3)

International
Wholesale

1,710

1,710

1,830

1,830

(6.6)

(6.6)

Eliminations

(627)

(368)

(707)

(415)

n.s

n.s

**Total
Domestic**

21,662

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

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

Fixed Telecommunications Revenues

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

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

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

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

Fonia Retail

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

Traffic

2,726

40.1

3,118

41.4

(392)

(12.6)

Accesses

3,491

51.3

3,668

48.8

(177)

(4.8)

VAS voice
services

207

3.0

252

	3.3
	(45)
	(17.9)
Telephone products	
	380
	5.6
	486
	6.5
	(106)
	(21.8)
Total Retail Voice	
	6,804
	100.0
	7,524
	100.0
	(720)
	(9.6)

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

Internet

	2009
	2008
	Change
	(millions of euros)
	<i>% of total</i>
	<i>%</i>
	<i>of total</i>
	amount
	<i>%</i>
	Total
	Internet
	1,707
	<i>100.0</i>
	1,630
	<i>100.0</i>

77

4.7

*of which
content/portal*

144

8.4

120

7.4

24

20.0

Revenues from internet are 1,707 million euros, increasing 77 million euros compared to 2008. The Narrowband component continues to decline and now represents only about 2% of total revenues. The total domestic retail broadband access portfolio in the domestic market reached 7.0 million accesses, growing 246,000 compared to the end of 2008. Flat-rate packages now account for 83.0% of the total retail broadband

50

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The Business Unit of the Telecom Italia Group

customer portfolio (77% at year-end 2008). IPTV services continue to gain ground in the Consumer market (the portfolio has 401,000 customers, +72,000 compared to the end of 2008) and the Virgilio portal Web packages and activities grew. The Alice Casa offering has a portfolio of 621,000 customers (+503,000 compared to December 31, 2008) and accounts for 8.9% of the broadband portfolio compared to 1.7% at December 2008.

Business Data

2009

2008

Change

(millions of euros)

% of total

%

of total

amount

%

Leased lines

190

11.0

198

11.5

(8)

(4.0)

Data
transmission

505

29.2

552

32.1

(47)

(8.5)

Data
products

204

11.8

211

12.3

(7)

(3.3)

ICT

831

48.0

759

44.1

72

9.5

*of which ICT
services*

510

448

62

13.8

*of which ICT
products*

321

311

10

3.2

**Total
Business
Data**

1,730

100.0

1,720

100.0

10

0.6

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

Wholesale

2009

2008

Change

(millions of euros)

% of total

% of total

amount

%

National
Wholesale

2,888

70.1

	2,459
	65.1
	429
	17.4
International Wholesale (*)	
	1,229
	29.9
	1,318
	34.9
	(89)
	(6.8)
Total Wholesale	
	4,117
	100.0
	3,777
	100.0
	340
	9.0

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

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

On the whole, revenues from national wholesale services show an increase of 429 million euros (+17.4%) compared to 2008. The change in wholesale revenues is related to the expansion of the customer base of alternative operators served through the various types of accesses.

Mobile Telecommunications Revenues

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

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

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

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

Outgoing Voice

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

Incoming Voice

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

Value-Added Services (VAS)

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

25%, in line with the 2008 average.

Handset Sales

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

EBITDA

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

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

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(millions of
euros)

2009

2008

Change

**HISTORICAL
EBITDA**

9,895

9,959

(64)

Effect of
translation of
foreign currency
financial
statements

3

(3)

Non-organic
(income)
expenses

*Mobility
expenses under
Law 223/91*

287

(287)

*Disputes and
settlements*

154

33

121

*Other
expenses, net*

25

3

22

**COMPARABLE
EBITDA**

10,074

10,285

(211)

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

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

focusing on higher-value customers;

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

EBIT

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

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

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

(millions of
euros)

2009

2008

Change

**HISTORICAL
EBIT**

5,394

5,405

(11)

Effect of
translation of
foreign currency
financial
statements

1

(1)

Non-organic
(income)
expenses

*Non-organic
expenses already
described under
EBITDA*

179

323

(144)

*Non-recurring
gains on disposal
of properties*

(25)

25

*Loss (Gains)
on tangible and
intangible assets*

38

38

**COMPARABLE
EBIT**

5,611

5,704

(93)

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Capital expenditures

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

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

Headcount

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

Commercial developments

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

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

On June 5, 2009, Telecom Italia and Aria signed a series of agreements which will allow them to focus their respective strategies and build infrastructural synergies with the aim of closing the Digital Divide and extending high-speed internet access to those areas of Italy that have not yet been reached by ADSL service. The first agreement

calls for the operator Aria's right to use Telecom Italia's Wi-Max frequencies in the regions of central and southern Italy such as Abruzzi, Umbria, Latium, Molise, Apulia, Campania, Basilicata, Calabria and Sardinia. At the same time, Aria will see that the minimum coverage is reached, guaranteeing the commitments undertaken with the Ministry of Economic Development. Under the agreement, Telecom Italia could also supply broadband using Wi-Max technology to its own customers throughout Italy, thanks to Aria's white label wholesale package. Finally, thanks to another agreement between the parties, Aria will use Telecom Italia's transport network infrastructures to build its own network.

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

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

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

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

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

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

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

Principal changes in the regulatory framework

Retail fixed markets

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

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

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

Retail subscriber charges

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

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

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

Wholesale fixed markets

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

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

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

Fixed network operator migration

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

Unbundled access and co-location services

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

Broadband access services (Bitstream)

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

Mobile market

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

Mobile termination

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

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

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

Frequencies

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

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

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

International roaming

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

SMS

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

MNP and prepaid residual credit

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

Other matters

Broadband and the digital divide

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

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

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

Emerging platforms

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

New EU legislation

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

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

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

AGCom fee

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

Competition

The market

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

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

In particular:

.

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

.

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

.

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

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

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

Competition in Fixed Telecommunications

The fixed-line telecommunications market is characterized by strong competition between operators centered on their capacity to innovate service offerings through the introduction of voice/broadband packages (double play) and voice/broadband/IPTV packages (triple play). This evolution is possible thanks to the competitors' shift from an essentially reseller approach (carrier selection/carrier pre-selection for voice services and Wholesale for ADSL) to an approach based on control of the infrastructures (Local Loop Unbundling (LLU) and wholesale line rental). There is also an increasingly evident trend of fixed/mobile convergence: many fixed operators are today also MVNOs (Mobile Virtual Network Operators) and offer integrated fixed-mobile services.

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

traditional voice services with content and value-added services based on the Internet Protocol (IP), the spread of which is favored both by the use of Internet and by changes in customer preferences and by the penetration of broadband and the PC, as well as by the quality of the service.

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

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

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

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

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

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

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

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

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

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

Competition in Mobile Telecommunications

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

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

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

Alongside the innovative services which are already established and in their full growth phase, such as Mobile Broadband, there are various other market areas with significant medium term growth potential, for example: Mobile Advertising, Mobile Content (e.g. Social Networking), Mobile Payment and Location Based Services.

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

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competitive and regulatory pressure on retail and wholesale prices;

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

.
the success/attractiveness of these new technologies.

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

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

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

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

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

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The Business Unit of the Telecom Italia Group

Brazil

The Business Unit

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

The structure of the Business Unit

The Tim Brasil group is organized as follows:

On December 30, 2009, Tim Participações finalized the acquisition of Intelig Telecomunicações Ltda from JVCO Participações (a subsidiary of the Docas Group). Intelig Telecomunicações Ltda is the domestic and international Brazilian telecommunications operator for long-distance and data transmission services. From an industrial standpoint, the acquisition is important because it will strengthen and complete the offering and optimize resources thanks to the synergies generated by the integration of the two networks. Intelig, in fact, possesses an

important fiber optic network (about 15 thousand kilometers) found in major Brazilian cities and has its own extensive carrier network (backbone).

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

Main operating and financial data

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

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

Amount

(c-d)

%

(c-d)/d

% organic

Revenues

5,022

5,208

13,907

13,951

(44)

(0.3)

(0.3)

EBITDA

1,255

1,217

3,476

3,259

	217
	6.7
	9.6
<i>E B I T D A</i>	
<i>margin</i>	
	25.0
	23.4
	25.0
	23.4
	2.3 pp
EBIT	
	209
	189
	580
	507
	73
	14.4
	33.1
<i>EBIT margin</i>	
	4.2
	3.6
	4.2
	3.6

1.3 pp

C a p i t a l
expenditures

964

1,348

2,671

3,612

(941)

(26.1)

Headcount at
year-end
(number)

9,783

10,285

(502)

(4.9)

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

Revenues

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

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

EBITDA

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

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

(millions of
Brazilian reais)

2009

2008

Change

**HISTORICAL
EBITDA**

3,476

3,259

217

Costs for services
associated with
the settlement of
a dispute

64

0

64

Other costs and
expenses, net

31

0

31

**COMPARABLE
EBITDA**

3,571

3,259

312

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

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

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

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

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

(m i l l i o n s o f
Brazilian reais)

2009

2008

Change

Writedowns and
expenses in
connection with
credit management

422

749

(327)

Accruals to
provisions

70

96

(26)

Telecommunications
operating fees and
charges

735

700

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

EBIT

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

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

(millions of
Brazilian reais)

2009

2008

Change

**HISTORICAL
EBIT**

580

507

73

Non-organic
expenses already
described under
EBITDA

95

0

95

**COMPARABLE
EBIT**

675

507

168

Capital expenditures

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

Headcount

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

Commercial developments

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

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

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

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

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

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

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

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

Competition

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

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

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

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

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

Other relevant information

Acquisition of Intelig Telecomunicações Ltda

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

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

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

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

Media

The Business Unit

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

-

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

-

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

-

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

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

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

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

(millions of
euros)

2009

2008

Change

amount

%

Revenues

230

287

(57)

(19.9)

EBITDA

(9)

(59)

50

84.7

*EBITDA
margin*

(3.9)

(20.6)

EBIT

(80)

(113)

33

29.2

EBIT margin

(34.8)

(39.4)

Capital
expenditures

53

50

3

6.0

Headcount at
year-end
(number)

757

967

(210)

(21.7)

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

(millions
of euros)

2009

2008

Change

amount

%

Revenues

3

81

(78)

(96.3)

EBITDA

(2)

(23)

21
 91.3
 EBIT
 (2)
 (25)
 23
 92.0

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

(millions of
 euros)

2009

2008

Change

amount

%

Revenues

227

215

12

5.6

EBITDA

(7)

(36)

29

80.6

*EBITDA
margin*

(3.1)

(16.7)

EBIT

(68)

(97)

29

29.9

EBIT margin

(29.9)

(45.1)

**Capital
expenditures**

53

48

5

10.4

Headcount at
year-end
(number)

757

856

(99)

(11.6)

Revenues

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

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

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

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

The Business Unit of the Telecom Italia Group

EBITDA

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

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

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

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

EBIT

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

Capital expenditures

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

Headcount

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

Principal changes in the regulatory framework

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

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

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

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

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

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

Events subsequent to December 31, 2009

Telecom Italia Media share capital increase

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

a.

cancellation of the par value of ordinary and savings shares;

b.

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

c.

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

d.

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

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

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

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

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

Renewal of Content Competence Center contract with Telecom Italia

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

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

Olivetti

The Business Unit

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

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

The structure of the Business Unit

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

(* Liquidated on January 28, 2010.

Main operating and financial data

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

(millions of
euros)

2009

2008

Change

amount

%

Revenues

350

352

(2)

	(0.6)
EBITDA	
	(14)
	(30)
	16
	53.3
<i>EBITDA margin</i>	
	(4.0)
	(8.5)
EBIT	
	(19)
	(37)
	18
	48.6
<i>EBIT margin</i>	
	(5.4)
	(10.5)
Capital expenditures	
	4
	3
	1

o

Headcount at
year-end
(number)

1,098

1,194

(96)

(8.0)

71

Report on Operations 2009

The Business Unit of the Telecom Italia Group

Revenues

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

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

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

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

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

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

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

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

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

EBITDA

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

(millions of
euros)

2009

2008

Change

**HISTORICAL
EBITDA**

(14)

(30)

16

*Mobility
expenses under
Law 223/91*

-

5

(5)

**COMPARABLE
EBITDA**

(14)

(25)

72

Report on Operations 2009

The Business Unit of the Telecom Italia Group

EBIT

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

(millions of
euros)

2009

2008

Change

**HISTORICAL
EBIT**

(19)

(37)

18

*Non-organic
expenses already
described under
EBITDA*

-

5

(5)

**COMPARABLE
EBIT**

(19)

(32)

13

Capital expenditures

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

Headcount

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

Commercial developments

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

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

new Documental Hub offering for document management, a market in Italy estimated to be worth approximately 1.5 billion euros.

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

Events subsequent to December 31, 2009

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

International Investments

BBNed Group

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

**BBNed
Group**

(millions of
euros)

2009

2008

Change

amount

%

Revenues

87

84

3

3.6

EBITDA

15

7

8

o

*EBITDA
margin*

17.2

8.3

EBIT

(5)

(17)

12

70.6

EBIT margin

(5.7)

(20.2)

**Capital
expenditures**

6

25

(19)

(76.0)

The key results in 2009 can be summarized as follows:

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

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

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

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

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

Commercial developments

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

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

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

- .
technological evolution of network infrastructures and rationalization of IT systems;
- .
improving the margins of rate plans;
- .
customer loyalty and retention activities;
- .
operating efficiency, rigid control over costs and the assessment of the return on investments.

Principal changes in the regulatory framework

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

Competition

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

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

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

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Report on Operations 2009

The Business Unit of the Telecom Italia Group

Other Investments Accounted for Using the Equity Method

Telecom Argentina Group

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

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

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

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

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

ETECSA

Held by: Telecom Italia International 27%

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

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

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The Business Unit of the Telecom Italia Group

Discontinued Operations/Non-Current Assets Held for Sale

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

(millions of euros)

2009

2008

Change

amount

%

**Economic impacts of
HanseNet:**

Revenues

1,161

1,190

(29)

(2.4)

EBITDA

265

238

27

11.3

EBITDA margin

22.8

20.0

EBIT

(6)

8

(14)

EBIT margin

(0.5)

0.7

Financial income
(expenses)

(24)

(33)

9

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

(30)

(25)

(5)

Income tax expense

7

36

(29)