

TELECOM ITALIA S P A  
Form 6-K  
May 29, 2009  
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**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 MAY 2009**

**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-\_\_\_\_\_

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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 2009-2011 period;

our ability to successfully achieve our debt reduction targets;

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

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

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

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

our ability to successfully implement our internet and BroadBand strategy both in Italy and abroad;

the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;

the impact of economic development generally on our international business and on our foreign investments and capital expenditures;

our services are technology-intensive and the development of new technologies could render such services non-competitive;

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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.

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**Letter to the Shareholders**

To our Shareholders,

In 2008, after the change in our shareholder structure, the replacements in top management and the stabilization of corporate governance, Telecom Italia was able to concentrate its efforts on the process of relaunching its business and growth.

**Profile of the Company**

**and business trends in 2008**

The most immediate cause for concern was to invert the downward trend which, still in the first quarter of 2008, was reflected in sales and profit margins. Keeping an ever-watchful eye on improving operations, the Group set about gradually and effectively turning the situation around. In fact, by the last quarter of the year, organic revenues were almost back in line with those in the same period of 2007 and profit margins had also finally begun to increase again. The positive end to the year was determined, on the one hand, by the expansion of broadband services, the development of Information & Communication Technology Services for businesses, the repricing of mobile phone rates and, more generally, by a sales policy oriented more towards value and efficiency and, on the other, by rigorous control of operating costs, capital expenditures and overheads.

In parallel with action on the operating side, we also identified the priorities and the structural measures that must be pursued in order to generate higher cash flow, reduce the relationship between earnings capacity and debt and, create the basis for healthy, solid growth in the medium-to-long term, while remaining firmly anchored to the values of the Code of Ethics and Code of Conduct of the Telecom Italia Group.

One matter that has been a Number One priority since the beginning of our mandate has been to create a constructive climate of frankness and steadfast cooperation with national and supra-national institutions and, in particular, with the Italian Communications Authority and other Authorities in the sector. In fact, we have succeeded in establishing a positive dialogue, with the aim of avoiding the kind of difficult situation encountered in the past with regard to regulations, which penalized our company more than other operators.

**A new climate**

**the rapport with the Regulator**

It was also in the light of this augmented transparency and an increasingly open attitude towards the market that, in February, the Group took a decisive organizational step: the creation of Open Access, a division that is completely separate from the Group's commercial functions. The new division has the task of managing the fixed access network efficiently and guaranteeing equal conditions and treatment for all operators. This corporate initiative was followed by the start of voluntary commitments, presented by Telecom Italia and approved by the Authority, which judged it positively with a view to improving the conditions for competing on access markets. Furthermore, the fact that we have succeeded in establishing a more constructive

**Open Access**

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**Letter to the Shareholders**

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rapport with the Regulatory Authority has also enabled us to drive home our viewpoint with regard to such important topics as mobile termination rates, the procedures to be followed when changing from one operator to another, and the increase in the subscriber line charge, which has remained unaltered since July 2002.

**Our rapport with the institutions** Another constructive factor was Telecom Italia's confrontation with political institutions about the development of telecommunications in Italy. It should be borne in mind that, having recognized the strategic national importance of spreading broadband rapidly together with the services which it supports, the Government and Parliament approved important measures to streamline the administrative procedures governing the creation of optical networks and systems and provide financial backing for projects intended to eliminate the digital divide. On a territorial level, we have managed to create close links with local administrations, businesses and social organizations, with the result that we now have numerous cooperation agreements in the sphere of regional development strategies for building new networks and new services.

**Our rapport with the other stakeholders** Factors of staunch cooperation and reciprocal trust have been key to our relations with our competitors, consumer associations and the labor unions. In particular, with regard to the latter category, agreement has been reached regarding the plan for reorganization and regaining efficiency announced in June.

**The 2009-2011 Industrial Plan** Against the background of this intense and highly rewarding dialogue with the institutions and the stakeholders, we worked hard to design an effective industrial plan for 2009-2011. The plan hinges on the vital aim of generating greater cash flow in order to bring debt down to acceptable levels. In particular, the plan redefines the Group's core activities, which will be concentrated in Italy and Brazil, and involves an immediate commitment to reducing costs and stabilizing revenues, as well as an ambitious divestiture program, to be implemented as soon as market conditions permit.

**A return to growth on the domestic market** As far as Italy is concerned, our Group intends to be the driver of the digitalization of Italy's economic and social system, helping customers to migrate from conventional phone services to the new services made possible by high-speed network technologies. To encourage this process and move to meet the demand in an even more effective way, we have created a new customer-centric kind of organization, structured according to segments of the clientele and no longer according to technologies.

We shall continue to strongly support innovation. The growing penetration of broadband and convergence between fixed and mobile technologies will allow us to introduce hi-tech Information and Communication Technology solutions to the market for businesses and the Public Administration, and to distribute multi-platform digital content to consumers. We intend to launch important projects to strengthen customer satisfaction and loyalty, through the value of our services, but also through specific measures to improve the quality of what we are offering, both from the technical standpoint, and from the standpoint of assistance and support.

**Our objective: efficiency** We have supported and will continue to support actions to improve revenues with others in the area of costs. The imperative need to generate cash flow, together with ever-increasing pressure from the competition, compels us to make a quantum leap of efficiency at the operating level. To this end, we have launched a series of programs: 1) to restructure sales and customer support activities according to the customer-centric rationale, thus ensuring better customer care and the development of new channels; 2) to rationalize our main technological and systems infrastructures and 3) to align our processes and support functions with the most demanding industry best practices. The results which emerge from these measures will enhance those resulting from the synergies with Telefónica.

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In Brazil, we can count on the certain advantages of the unquestioned superiority of mobile broadband compared to fixed broadband and our excellent positioning on the market. Development potential there is high. For that reason, we shall continue to invest in innovation, with the aim of once again making Tim Brasil the acknowledged market leader in terms of the value of its customer base and its technological excellence.

**Brazil a return  
to excellence**

As is the Group's longstanding custom, our decision-making processes and operations will continue to be based on a very real awareness of our responsibility as a company to every category of stakeholder. In fact, our concern for sustainability in the environmental and social spheres will continue to be the driving factor behind our competitiveness.

**Sustainability**

In the immediate future, the Group will be confronted with an ever-more complex global economic scenario, marked by a general feeling of pessimism. However, telecommunications are proving to be one of the industry segments least affected by the pro-cyclical trend because of the ever-more crucial role of communication in our society and the awareness that our sector is increasingly a central factor in the creation and multiplication of productivity.

**The economic scenario  
in 2009 and the role  
of telecommunications**

However, in a market which continues to offer opportunities for growth, and having left the transition phase firmly behind, Telecom Italia is now turning towards the path of revival. The challenge, though, remains complex and, precisely for that reason, will be confronted with the awareness that, in industry, milestones cannot be rapidly removed, but must be passed one by one, methodically, precisely and one step at a time. By adopting these criteria and sustained by the widely acknowledged, time-tested skills and competence of all our employees, the motives for placing trust in the future of the Company seem solid and fully justified.

**Why trust is justified**

Gabriele Galateri di Genola

Franco Bernabé

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### Selected financial and operating data - Telecom Italia Group

#### 2008 Highlights

The major operating and financial indicators of the Telecom Italia Group point to a trend of progress in 2008, with significant positive signs registered in the Domestic area where price erosion decelerated noticeably and overall profit margins reported gains.

Consolidated **Revenues** in 2008 total 30,158 million of euro. The organic change <sup>(1)</sup> in consolidated **Revenues** is -2.3% compared to 2007. In particular:

the organic reduction in **Domestic Revenues** is -3.9% in 2008 compared to 2007 (-5.8%).

During 2008, revenues went from a reduction of -6.4% recorded in the first quarter to -0.6% in the fourth quarter. These results were achieved thanks to sales actions aimed at protecting the customer base, especially the most valuable customers, the repricing of certain mobile rates starting from second half of the year and the gradual diminishing impact of the changes in the regulatory framework defined during 2007;

in areas outside Italy, **Brazil** and **European BroadBand**, positive increases were posted, with an organic growth in Revenues over 2007 of +4.9% for Brazil and +4.5% for European BroadBand.

**EBITDA** in 2008 is 11,367 million of euro and the EBITDA margin is 37.7%.

The organic<sup>(1)</sup> consolidated **EBITDA margin** for the full-year 2008 is 38.8% (39.5% is 2007). While in terms of the average percentage reduction in 2008 the organic contraction in consolidated EBITDA is -4.2% (-5.5% in the prior year), there was an inversion of this trend in the fourth quarter of 2008 over the previous quarters in both absolute amount and as a percentage of revenues, with a increase of +2.2% over the same period of 2007 and a higher organic consolidated EBITDA margin of about 0.8 percentage points.

This noteworthy performance can be especially attributed to the Domestic business where the fourth quarter reported a growth in organic EBITDA of +3.8% compared to 2007. The improvement is due to a constant course of action aimed at defining and monitoring projects geared to the rationalization of production factors, whether costs, technology or resources. This includes the decline in the number of the workforce in the Domestic area from 64,362 at December 31, 2007 to 61,816 at December 31, 2008 (as part of agreements reached with the labor unions).

**EBIT** in 2008 is 5,463 million of euro and the EBIT margin is 18.1%.

Even the declining trend in organic<sup>(1)</sup> consolidated **EBIT** is slowing down compared to the prior year (a contraction of -11.3% in 2008 over 2007 compared to -13.7%). The organic consolidated EBIT margin in 2008 is 19.1% (21.1% in 2007).

**Financial management and investment management** recorded an overall decrease of 935 million of euro in 2008 compared to 2007. This result was affected by non-recurring gains recorded in 2007 (-460 million of euro) and the financial market conditions in 2008 which made it necessary to writedown the call options on 50% of the share capital of Sofora Telecomunicaciones, the majority shareholder of Telecom Argentina, for 190 million of euro (compared to a 70 million of euro revaluation in 2007). Market conditions also had an impact on finance expenses but the impact was limited thanks to the Company's prudent financial management policy.

**Consolidated profit attributable to the equity holders of the Parent** is 2,214 million of euro in 2008, a reduction of 234 million of euro compared to 2007 (2,448 million of euro).

**Profit of the Parent, Telecom Italia S.p.A.**, is 1,500 million of euro in 2008, a reduction of 382 million of euro compared to 2007 (1,882 million of euro).

At December 31, 2008, consolidated **Net Financial Debt** amounts to 34,039 million of euro, with a reduction of 1,662 million of euro compared to December 31, 2007 and a reduction of 1,731 million of euro compared to September 30, 2008. The net financial debt to EBITDA ratio is 2.99 (3.06 at December 31, 2007).



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

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**Selected financial and operating data - Telecom Italia Group**

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The **liquidity margin** at the end of 2008 is at a high level: 5.1 billion of euro (excluding the liquidity of Brazil for 0.5 billion of euro) in addition to approximately 6.5 billion of euro of irrevocable long-term credit lines expiring in 2014 (treasury margin), which are not conditional upon events limiting their use (for instance covenants, negative pledges or MAC clauses). In view of the actual uncertainty of the financial markets, Telecom Italia stands forward with a high solid financial base since it has a sufficient treasury margin to meet its repayment obligations for the next 18-24 months.

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**Selected financial and operating data - Telecom Italia Group**

**Table of Contents****Consolidated financial and operating data**

(millions of euro)	2008	2007	2006	2005	2004
Revenues	<b>30,158</b>	31,013	31,037	29,794	28,292
EBITDA <sup>(1)</sup>	<b>11,367</b>	11,668	12,945	12,606	12,864
EBIT <sup>(1)</sup>	<b>5,463</b>	5,955	7,635	7,631	7,603
Profit before tax from continuing operations	<b>2,897</b>	4,324	5,723	5,673	5,606
Profit from continuing operations	<b>2,244</b>	2,641	3,203	3,277	2,952
Profit or loss from Discontinued operations/ Non-current assets held for sale	<b>(29)</b>	(186)	(200)	413	(118)
Profit for the year	<b>2,215</b>	2,455	3,003	3,690	2,834
Profit attributable to equity holders of the Parent	<b>2,214</b>	2,448	3,014	3,216	1,815
Capital expenditures:					
Industrial	<b>5,365</b>	5,370	4,877	5,097	5,002
Financial	<b>6</b>	637	206	14,934	868

**Consolidated balance sheet data<sup>(2)</sup>**

(millions of euro)	12.31.08	12.31.07	12.31.06	12.31.05	12.31.04
Total assets	<b>85,635</b>	88,176	89,960	96,190	81,997
Total equity	<b>26,856</b>	26,985	27,098	26,985	20,798
attributable to equity holders of the Parent	<b>26,126</b>	25,922	26,018	25,662	16,248
attributable to Minority Interest	<b>730</b>	1,063	1,080	1,323	4,550
Total liabilities	<b>58,779</b>	61,191	62,862	69,206	61,199
Total equity and liabilities	<b>85,635</b>	88,176	89,960	96,190	81,997
Share capital	<b>10,591</b>	10,605	10,605	10,599	8,809
Net financial debt	<b>34,039</b>	35,701	37,301	39,858	32,862
Net invested capital <sup>(3)</sup>	<b>60,895</b>	62,686	64,399	66,843	53,660
Debt ratio (Net financial debt / Net invested capital)	<b>55.9%</b>	57.0%	57.9%	59.6%	61.2%

**Headcount, number in the Group at year-end <sup>(4)</sup>**

(millions of euro)					
Headcount (excluding headcount of Discontinued operations/ non-current assets held for sale )	<b>77,825</b>	82,069	81,927	84,174	82,620
Headcount of Discontinued operations/non-current assets held for sale		1,360	1,282	2,357	11,402

**Headcount, average equivalent number in the Group <sup>(4)</sup>**

(millions of euro)	2008	2007	2006	2005	2004
Headcount (excluding headcount of Discontinued operations/ Non-current assets held for sale)	<b>76,028</b>	78,278	78,652	79,085	79,602
Headcount of Discontinued operations/Non-current assets held for sale	<b>757</b>	1,350	1,620	5,262	11,248

**Consolidated profit ratios**

EBITDA <sup>(1)</sup> / Revenues	<b>37.7%</b>	37.6%	41.7%	42.3%	45.5%
EBIT <sup>(1)</sup> / Revenues (ROS)	<b>18.1%</b>	19.2%	24.6%	25.6%	26.9%
Net financial debt /EBITDA <sup>(1)</sup>	<b>2.99</b>	3.06	2.88	3.16	2.55
Revenues/Headcount (average number in the Group, thousands of euro)	<b>396.7</b>	396.2	394.6	376.7	355.4
EBITDA <sup>(1)</sup> /Headcount (average number in the Group, thousands of euro)	<b>149.5</b>	149.1	164.6	159.4	161.6

### Operating data

Fixed-line network connections in Italy (thousands)	<b>20,031</b>	22,124	23,698	25,049	25,957
Physical access lines at year-end (Consumer+Business) (thousands)	<b>17,352</b>	19,221	20,540	21,725	22,429
Mobile lines in Italy at year-end (thousands)	<b>34,797</b>	36,331	32,450	28,576	26,259
Mobile lines in Brazil at year-end (thousands)	<b>36,402</b>	31,254	25,410	20,171	13,588
Broadband connections in Italy at year-end (thousands)	<b>8,134</b>	7,590	6,770	5,707	4,010
<i>of which retail broadband connections (thousands)</i>	<b>6,754</b>	6,427	5,600	3,920	2,629
Broadband connections in Europe at year-end (thousands)	<b>2,510</b>	2,537	1,138	801	412

- (1) Details are provided in the section Alternative Performance Measures .
- (2) Balance sheet data has been restated for purposes of comparison by considering the following companies in Discontinued operations/Non-current assets held for sale: the Finsiel group, Digitel Venezuela, the Entel Chile group, Tim Hellas, Tim Perù, the Buffetti group and the Liberty Surf group.
- (3) Net invested capital = Total equity + Net financial debt.
- (4) The number includes people with temp work contracts.

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### Selected financial and operating data - Telecom Italia Group

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*The operating and financial results of the Telecom Italia Group for the year 2008 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).*

*The Telecom Italia Group, in addition to the conventional financial performance measures established by the IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, the organic change in Revenues, EBITDA and EBIT is calculated by excluding the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.*

*Additional details on such measures are presented under Alternative performance measures.*

*Furthermore, particularly the part entitled Business Outlook for the Year 2009 contains forward-looking statements. These statements are 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, the majority of which is beyond the scope of the Group's control.*

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**Selected financial and operating data - Telecom Italia Group**

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**Corporate boards at December 31, 2008**

**Board of Directors**

The ordinary session of the shareholders meeting held on April 14, 2008 elected the board of directors, establishing the number of directors at 15 and setting the expiry of the term of office at three years, up to the approval of the financial statements at December 31, 2010.

On April 15, 2008, the new Telecom Italia board of directors met and confirmed Gabriele Galateri di Genola and Franco Bernabè, respectively, chairman and chief executive officer, with the powers and responsibilities already held by them.

At December 31, 2008, the board of directors of the company is composed as follows:

<b>Chairman</b>	Gabriele Galateri di Genola
<b>Chief Executive Officer</b>	Franco Bernabè
<b>Directors</b>	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
	Gianni Mion <sup>(°)</sup>
	Renato Pagliaro
	Luigi Zingales (independent)
<b>Secretary to the Board</b>	Antonino Cusimano <sup>(*)</sup>

(°) Following the resignation of Gianni Mion, in its meeting on February 27, 2009 the Board of Directors co-opted Stefano Cao, who, as prescribed by law, will remain in office until the shareholders meeting.

(\*) Appointed to the post by the board of directors on September 25, 2008.

In the April 15, 2008 meeting, the board of directors formed its internal Committees:

**Executive Committee**, composed of: Gabriele Galateri di Genola (Chairman), Franco Bernabè, Roland Berger, Gaetano Micciché (who resigned from the Executive Committee on August 26, 2008 and was replaced by Elio Cosimo Catania who was appointed by the board of directors in its meeting on September 25, 2008), Julio Linares Lopez, Aldo Minucci, Gianni Mion (who resigned from the Board of Directors on February 27, 2009) and Renato Pagliaro;

**Committee for Internal Control and Corporate Governance**, composed of: Paolo Baratta (subsequently appointed Chairman of the Committee), Elio Cosimo Catania (replaced on September 25, 2008 by Roland Berger), Jean Paul Fitoussi and Aldo Minucci;

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

**Board of Statutory Auditors**

**Chairman**  
**Acting Auditors**

Paolo Golia  
Enrico Maria Bignami  
Salvatore Spiniello  
Ferdinando Superti Furga  
Gianfranco Zanda  
Luigi Gaspari  
Enrico Laghi

**Alternate Auditors**

**Independent Auditors**

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

**Manager responsible for preparing the corporate financial reports**

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

For additional details on Corporate Governance and information on the organizational structure of the Telecom Italia Group, reference should be made to the corporate website: <http://www.telecomitalia.it>, where, in the Governance channel, the Annual report on corporate governance is available.

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**Corporate boards at December 31, 2008**

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**Macro-organization chart -**

**Telecom Italia Group at December 31, 2008**

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**Macro-organization chart - Telecom Italia Group at December 31, 2008**



**Table of Contents****Information for investors****Telecom Italia S.p.A. Share capital at December 31, 2008**

Share capital	euro	10,673,803,873,70
Number of ordinary shares (par value euro 0.55 each)		13,380,795,473
Number of savings shares (par value euro 0.55 each)		6,026,120,661
Number of Telecom Italia ordinary treasury shares <sup>(1)</sup>		26,272,014
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 share capital		0.78%
Market capitalization (based on December 2008 average prices)		18,809 million of euro

**Shareholders****Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2008, supplemented by communications received and other sources of information** (ordinary shares)

## Major holdings in share capital

At December 31, 2008, 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 ordinary share capital are as follows:

Holder	Type of ownership	% stake in ordinary share capital
Telco S.p.A.	Direct	24.50%
Findim Group S.A.	Direct	5.01%

Furthermore, Brandes Investment Partners LP and Alliance Bernstein LP, as investment advisory firms, notified Consob on July 23, 2008 and November 14, 2008, respectively, that they are in possession of a quantity of Telecom Italia ordinary shares equal to 4.024% and 2.069%, respectively.

- (1) In September 2008, Telecom Italia S.p.A. bought back 25,000,000 treasury shares to service the performance share granting plan of free Telecom Italia S.p.A. ordinary shares reserved for top management of the Group, approved by the shareholders meeting held on April 16, 2007.

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**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 1.5% 2001-2010 convertible bonds with a repayment premium (up to the bond repayment date);

Telecom Italia 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired (years 2008-2010);

Telecom Italia S.p.A. Euro 750,000,000 4.50 per cent. notes due 2011 (2006-2008);

Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. notes due 2019 (2006-2008).

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

Relative performance Telecom Italia S.p.A.

1/1/2008 - 12/31/2008 vs MIBTEL and DJ Stoxx TLC Indexes

Relative performance Telecom Italia Media S.p.A.

1/1/2008 - 12/31/2008 vs MIBTEL and DJ Stoxx Internet Indexes

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Relative performance Tim Participações S.A.

1/1/2008 - 12/31/2008 vs Ibov and IteI Indexes (prices in reais)

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

**Rating at December 31, 2008**

	RATING	OUTLOOK
STANDARD & POOR S	BBB	Stable
MOODY S	Baa2	Stable
FITCH RATINGS	BBB	Stable

Standard & Poor s, on March 17, 2008, changed its rating of Telecom Italia from BBB+ to BBB and modified the outlook to stable from negative.

Moody s, on May 12, 2008, confirmed its Baa2 rating and changed its outlook of the Group to stable from negative.

Fitch Ratings, on December 11, 2008, changed its rating from BBB+ to BBB with a stable outlook.

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**Table of Contents****Financial Ratios****Telecom Italia S.p.A.**

(euro)	2008	2007	2006
<b>Stock prices</b> (December average)			
- Ordinary	1.09	2.18	2.28
- Savings	0.73	1.68	1.94
<b>Dividends per share</b>			
- Ordinary	0.050	0.080	0.140
- Savings	0.061	0.091	0.151
<b>Pay Out Ratio</b> (*)	70%	86%	67%
<b>Market to Book Value</b> (**)	0.82	1.67	1.72
<b>Dividend Yield (based on December average)</b> (***)			
- Ordinary	4.59%	3.67%	6.14%
- Savings	8.36%	5.42%	7.78%

**Telecom Italia Group**

(euro)	2008	2007	2006
Basic earnings per share ordinary shares	0.11	0.12	0.15
Basic earnings per share savings shares	0.12	0.13	0.16

(\*) Dividends paid during the following year/Profit for the year. In 2008 the ratio is calculated on the basis of the resolutions for the distribution of net income proposed in the shareholders meeting on April 8, 2009.

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

(\*\*\*) Dividends per share/Stock prices.

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**Table of Contents****Review of financial and operating performance - Telecom Italia Group****Main changes in the scope of consolidation**

Liberty Surf group, operating in the BroadBand sector in France, was disposed of on August 26, 2008. It was classified in Discontinued operations/Non-current assets held for sale for purposes of the results of operations and the financial condition in 2008 and 2007.

In 2008, the scope of consolidation shows the following changes:

the exclusion of Entel Bolivia from the scope of consolidation starting from the second quarter of 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the Entel Bolivia shares held by the Telecom Italia Group. The investment is now carried in Current assets;

the exclusion of the Pay-per-View business segment from December 1, 2008 after its disposal by Telecom Italia Media S.p.A.. In 2007, the scope of consolidation showed the following changes:

the inclusion of the companies in the German AOL group, purchased at the end of February 2007, consolidated from March 1, 2007;

the inclusion of InterNLnet B.V. (a Dutch company acquired by BBNet in July 2007);

the inclusion of Shared Service Center S.r.l. (consolidated line-by line from October 2007), following the acquisition of control by the Parent in the fourth quarter of 2007. The company had previously been carried in the financial statements using the equity method.

**2008 consolidated operating performance:**

The main profit indicators in 2008 compared to 2007 are the following:

(millions of euro)	2008	2007	amount	Change %	% organic
<b>Revenues</b>	<b>30,158</b>	<b>31,013</b>	(855)	(2.8)	(2.3)
<b>EBITDA</b>	<b>11,367</b>	<b>11,668</b>	(301)	(2.6)	(4.2)
<i>Margin on revenues</i>	<i>37.7%</i>	<i>37.6%</i>	<i>0.1pp</i>		
<i>Organic margin on revenues</i>	<i>38.8%</i>	<i>39.5%</i>	<i>(0.7)pp</i>		
<b>EBIT</b>	<b>5,463</b>	<b>5,955</b>	(492)	(8.3)	(11.3)
<i>Margin on revenues</i>	<i>18.1%</i>	<i>19.2%</i>	<i>(1.1)pp</i>		
<i>Organic margin on revenues</i>	<i>19.1%</i>	<i>21.1%</i>	<i>(2.0)pp</i>		
<b>Profit before tax from continuing operations</b>	<b>2,897</b>	<b>4,324</b>	(1,427)	(33.0)	
<b>Profit from continuing operations</b>	<b>2,244</b>	<b>2,641</b>	(397)	(15.0)	
Loss from discontinued operations/non-current assets held for sale	(29)	(186)	157	(84.4)	
<b>Profit for the year</b>	<b>2,215</b>	<b>2,455</b>	(240)	(9.8)	
<b>Profit attributable to equity holders of the parent</b>	<b>2,214</b>	<b>2,448</b>	(234)	(9.6)	

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**Review of financial and operating performance - Telecom Italia Group**

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The following chart summarizes the main line items which had an impact on the profit attributable to the equity holders of the Parent in 2008:

**Revenues**

Revenues amount to 30,158 million of euro in 2008 with a reduction of 2.8% compared to 31,013 million of euro in 2007 (- 855 million of euro). In terms of the organic change, the reduction in consolidated revenues is -2.3% (- 724 million of euro) and exhibited signs of slowing down during 2008: from a reduction of 301 million of euro in the first quarter (-4.0%) to a decline of only 21 million of euro in the fourth quarter of the year (-0.3%) thanks to the gains made in the Domestic market, in particular.

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

excluding the effect of the change in the scope of consolidation (- 88 million of euro, mainly due to the inclusion of the AOL Internet operations in Germany from March 1, 2007 and the exclusion of Entel Bolivia from the second quarter of 2008);

excluding the effect of exchange differences (- 51 million of euro, due to the negative exchange differences of the Brazil Business Unit<sup>(1)</sup>, equal to 29 million of euro, and other Business Units, equal to 22 million of euro);

excluding other non-organic revenues (32 million of euro in 2007, 24 million of euro in 2008) relating to changes in voice call termination rates following the settlement of some rate disputes with other operators.

The breakdown of Revenues by operating segment is the following:

(millions of euro)	2008		2007		amount	Change	
		%		%		%	% organic
Domestic	23,268	77.2	24,220	78.1	(952)	(3.9)	(3.9)
Brazil	5,208	17.3	4,990	16.1	218	4.4	4.9
European BroadBand	1,274	4.2	1,151	3.7	123	10.7	4.5
Media, Olivetti and Other Operations	773	2.6	922	3.0	(149)	(16.2)	
<i>Adjustments and Eliminations</i>	<i>(365)</i>	<i>(1.3)</i>	<i>(270)</i>	<i>(0.9)</i>	<i>(95)</i>	<i>35.2</i>	
<b>Total consolidated revenues</b>	<b>30,158</b>	<b>100.0</b>	<b>31,013</b>	<b>100.0</b>	<b>(855)</b>	<b>(2.8)</b>	<b>(2.3)</b>

<sup>(1)</sup> The annual exchange rate used to translate the Brazilian real to euro, for 2008, is equal to 2.67864 (expressed in terms of units of local currency per euro 1) and, for 2007, 2.66397. The effect of the change in the exchange rates is calculated by applying, to the current period, the foreign currency translation rates used for the period under comparison.

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**Review of financial and operating performance - Telecom Italia Group**

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

The trend of organic revenues in the Domestic segment, although showing a reduction from the prior year predominantly due to the ongoing contraction in Revenues from Traditional services, particularly in the areas of fixed-line retail voice and data transmission services, displays a steady recovery on a quarterly basis: from a decline of 382 million of euro in the first quarter (-6.4%) to a reduction of 39 million of euro in the fourth quarter of the year (-0.6%).

Factors causing the change in Domestic Revenues during 2008, compared to the prior year, are highlighted as follows:

the positive change in Revenues from innovative businesses such as Fixed-line Broadband Revenues (+186 million of euro in 2008 compared to 2007), Interactive VAS Revenues from the Mobile business (+ 263 million of euro) and Revenues from ICT services (+ 115 million of euro);

the positive change in National Wholesale Revenues, despite a significant reduction in terms of regulated prices, for the portion of access services by alternative operators to the Telecom Italia network (Unbundling of the Local Loop, Wholesale Line Rental, Bitstream, etc.), grew compared to the prior year by 113 million of euro. This change also made it possible to partly offset the negative trend of revenues from retail voice services;

the gradual reduction in certain negative effects caused by regulatory and contractual changes, such as the application of the Bersani Decree . These related to top-up costs for mobile phones, the reduction in termination rates, the reduction in international roaming traffic rates within the EU and the above-mentioned change in prices relating to regulated bitstream, wholesale services, unbundling and shared access, which during the year generated about 830 million of euro in lower revenues. This change, observed during the course of the year on a quarterly basis, shows an impact of - 418 million of euro in the first quarter which decreased to - 81 million of euro in the fourth quarter.

As for the growth of the Brazil Business Unit, value-added services made a positive contribution, growing by more than 30% (+ 105 million of euro) compared to the prior year. This is evident in the increase of the TIM Web client base (broadband connectivity plans using mobile technology) which reached 425 thousand at the end of the period, up 174% compared to year-end 2007.

For an in-depth analysis of the revenues of the individual Business Units, reference should be made to the section Business Units of the Telecom Italia Group .

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**Review of financial and operating performance - Telecom Italia Group**



**Table of Contents****EBITDA**

EBITDA is 11,367 million of euro and decreased, compared to 2007, by 301 million of euro (-2.6%), having also been negatively affected by the aforementioned regulatory and contractual changes. The organic change in EBITDA is a negative 512 million of euro (-4.2%).

The EBITDA margin went from 37.6% in 2007 to 37.7% in 2008; at the organic level, the EBITDA margin is 38.8% in 2008 (39.5% in 2007).

Details of EBITDA and the EBITDA margin, by operating segment, is the following:

(millions of euro)	2008		2007		amount	Change	
		%		%		%	% organic
Domestic	9,998	88.0	10,174	87.2	(176)	(1.7)	(4.3)
<i>% of Revenues</i>	<i>43.0</i>		<i>42.0</i>		<i>+1.0pp</i>		
Brazil	1,217	10.7	1,207	10.3	10	0.8	1.4
<i>% of Revenues</i>	<i>23.4</i>		<i>24.2</i>		<i>(0.8)pp</i>		
European BroadBand	245	2.2	297	2.5	(52)	(17.5)	(19.4)
<i>% of Revenues</i>	<i>19.2</i>		<i>25.8</i>		<i>(6.6)pp</i>		
Media, Olivetti and Other Operations	(78)	(0.7)	(5)	°	(73)	°	
<i>Adjustments and Eliminations</i>	<i>(15)</i>	<i>(0.2)</i>	<i>(5)</i>	°	<i>(10)</i>	°	
<b>Total consolidated EBITDA</b>	<b>11,367</b>	<b>100.0</b>	<b>11,668</b>	<b>100.0</b>	<b>(301)</b>	<b>(2.6)</b>	<b>(4.2)</b>

The following chart summarizes the changes in **EBITDA**:

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

(millions of euro)	2008	2007	Change
Expenses for mobility agreements under Law 223/91	292		292
Disputes and settlements with other operators	34	448	(414)
Other expenses, net	3	41	(38)
Industrial reconversion expenses		17	(17)
Costs for termination price adjustment (fixed fixed)		92	(92)
Antitrust fine		20	(20)
<b>Total non-organic (income) expenses</b>	<b>329</b>	<b>618</b>	<b>(289)</b>

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**Review of financial and operating performance - Telecom Italia Group**

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EBITDA was particularly impacted by the performance of the following line items, analyzed below.

**Acquisition of goods and services**

Acquisition of goods and services amounts to 13,876 million of euro, with a reduction of 379 million of euro (-2.7%) compared to 2007 (14,255 million of euro). The reduction in costs for the portion of revenues to be paid to other operators and for commercial expenses of the Domestic Business Unit were partly offset by the increase in the interconnection costs of the European BroadBand and Brazil Mobile Business Units.

In detail:

(millions of euro )	2008	2007	Change
Purchase of raw materials and merchandise	2,720	2,635	85
Portion of revenues to paid to other operators and interconnection costs	5,450	5,850	(400)
Commercial and advertising costs	2,067	2,210	(143)
Power, maintenance and outsourced services	1,335	1,220	115
Rent and leases	606	595	11
Other service expenses	1,698	1,745	(47)
<b>Total acquisition of goods and services</b>	<b>13,876</b>	<b>14,255</b>	<b>(379)</b>

The percentage of acquisition of goods and services to revenues is 46.0%, unchanged compared to 2007.

**Employee benefits expenses**

Details are as follows:

(millions of euro )	2008	2007	Change
<b>Employee benefits expenses Italian companies:</b>			
Ordinary employee costs and expenses	3,474	3,544	(70)
Expenses for mobility agreements under Law 223/91	292		292
Inclusion of Shared Service Center in scope of consolidation	44	11	33
Profit bonuses accrued in 2006 and no longer due following agreements with the unions in June 2007		(79)	79
Actuarial recalculation of the provision for employee severance indemnity (according to the law on supplementary pension benefits)		(59)	59
<b>Total employee benefits expenses Italian companies</b>	<b>3,810</b>	<b>3,417</b>	<b>393</b>
<b>Employee benefits expenses foreign companies:</b>			
Ordinary employee costs and expenses	406	390	16
Entel Bolivia Group (*)	4	15	(11)
<b>Employee benefits expenses foreign companies</b>	<b>410</b>	<b>405</b>	<b>5</b>
<b>Total employee benefits expenses</b>	<b>4,220</b>	<b>3,822</b>	<b>398</b>

(\*) Excluded from the scope of consolidation in the second quarter of 2008.

The decrease of 70 million of euro in the Italian component of ordinary employee benefit expenses is particularly due to lower expenses for termination benefit incentives (- 87 million of euro) and lower costs arising from the reduction in the average number of the salaried workforce

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(-1,746 compared to 2007, excluding 460 employees as a result of the inclusion of Shared Service Center in the scope of consolidation). The reduction is countered by the continuing increase in costs due to the effect of the October 2007 and June 2008 increases in the minimum salary contract terms established by the July 31, 2007 TLC collective national labor contract, for the two economic years 2007 and 2008.

The expenses for mobility agreements under Law 223/91 refer to 287 million of euro for the Domestic Business Unit ( 283 million of euro for Telecom Italia and 4 million of euro for Telecom Italia Sparkle) and 5 million of euro for the Olivetti Business Unit. The

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agreements with the labor unions were signed on September 19, 2008 for Telecom Italia, October 28, 2008 for Telecom Italia Sparkle and December 11, 2008 for Olivetti and Olivetti I-Jet.

As for the foreign component, ordinary employee benefits expenses were influenced by an increase in the number of the workforce at the Brazil Business Unit and at BBNed (European BroadBand).

The average number of the salaried workforce is the following:

(equivalent number)		2008	2007	Change
Average salaried workforce	Italy (1)	63,145	64,431	(1,286)
Average salaried workforce	Foreign (2)	12,883	13,847	(964)
<b>Total average salaried workforce</b>		<b>76,028</b>	<b>78,278</b>	<b>(2,250)</b>
Non-current assets held for sale	Foreign	757	1,350	(593)
<b>Total average salaried workforce</b>	<b>including Non-current assets held for sale</b>	<b>76,785</b>	<b>79,628</b>	<b>(2,843)</b>

(1) The change from 2007 includes the addition of Shared Service Center s average headcount of 460 employees.

(2) The change from 2007 includes the deduction of the Entel Bolivia group s average headcount of 1,381 employees. Headcount at December 31, 2008 is the following:

(number)		12/31/2008	12/31/2007	Change
Headcount	Italy	64,242	66,951	(2,709)
Headcount	Foreign	13,583	15,118	(1,535)
<b>Total Headcount</b>	<b>excluding Non-current assets held for sale (1)</b>	<b>77,825</b>	<b>82,069</b>	<b>(4,244)</b>
Non-current assets held for sale - Foreign			1,360	(1,360)
<b>Total - including Non-current assets held for sale</b>		<b>77,825</b>	<b>83,429</b>	<b>(5,604)</b>

(1) Includes employees with temp work contracts: 1,075 at 12/31/2008 and 1,969 at 12/31/2007.

The Group s headcount reduction totaling 4,244 from year-end 2007 particularly refers to a 2,674-employee decrease at the Parent, Telecom Italia S.p.A., corresponding to more than 50% of the target in the efficiency plan presented by the Executive Committee on June 4, 2008.

**Other income**

Details are as follows:

(millions of euro )		2008	2007	Change
Late payment fees charged for telephone services		86	90	(4)
Recovery of personnel costs, acquisitions of goods and services rendered		59	58	1

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Capital and operating grants	44	34	10
Damage compensation, penalties and sundry recoveries	68	44	24
Sundry income	99	180	(81)
<b>Total</b>	<b>356</b>	<b>406</b>	<b>(50)</b>

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**Table of Contents****Other operating expenses**

Details are as follows:

(millions of euro )	2008	2007	Change
Writedowns and expenses in connection with credit management	744	951	(207)
Accruals to provisions	82	323	(241)
Telecommunications operating fees and charges	315	283	32
Taxes on revenues of Brazilian companies	282	266	16
Indirect duties and taxes	139	155	(16)
Penalties, compensation and administrative sanctions	63	60	3
Association dues and fees, donations, scholarships and traineeships	26	25	1
Sundry expenses	45	168	(123)
<b>Total</b>	<b>1,696</b>	<b>2,231</b>	<b>(535)</b>

Writedowns and expenses in connection with credit management include 402 million of euro referring to the Domestic Business Unit (652 million of euro in 2007), 280 million of euro to the Brazil Business Unit (268 million of euro in 2007) and 58 million of euro to the European BroadBand Business Unit (25 million of euro in 2007). The amounts accrued in 2008 in connection with credit management take into account both the assessment of credit risks on consumer and business customers arising from the recent change in the macroeconomic scenario and the steps taken to recover receivables.

Accruals to provisions, recognized mainly for pending disputes, include 39 million of euro referring to the Domestic Business Unit (287 million of euro in 2007, recorded in respect of negative developments in litigation of a regulatory nature with other fixed-line and mobile telephone operators) and 36 million of euro to the Brazil Business Unit (18 million of euro in 2007).

Sundry income and expenses refer to prior period income and expenses.

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

Depreciation and amortization amount to 5,906 million of euro (5,674 million of euro in 2007), with an increase of 232 million of euro, of which 148 million of euro refers to the amortization of intangible assets and 84 million of euro to the depreciation of tangible assets.

The increase in amortization reflects the development of European BroadBand and the amortization charge of capitalized SAC costs (Subscriber Acquisition Costs) for sales packages. The increase in depreciation is mainly due, in the Domestic Business Unit, to the shift in the capital expenditure mix to assets with a shorter life and also the full effect in 2008 of the depreciation charge on tangible assets capitalized in 2007.

The gains on disposals of non-current assets include 9 million of euro on the disposal of the Pay-per-View business segment by Telecom Italia Media in addition to other net gains mainly on the sale of properties.

Impairment losses on non-current assets (33 million of euro in 2008, 44 million of euro in the prior year) largely refer to the impairment loss of 21 million of euro on the goodwill originally recognized on the acquisition of AOL internet businesses in Germany. The impairment was recognized following tax benefits recorded in 2008 that had not been accounted for at the date of acquisition, since the assumptions for their recognition were believed not to exist at that time.

The impairment test for the cash-generating units of the Telecom Italia Group indicated that the recoverable amounts exceeded the carrying amounts, therefore no impairment losses were recognized on goodwill.

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**Review of financial and operating performance - Telecom Italia Group**

**Table of Contents****EBIT**

EBIT is 5,463 million of euro, a reduction of 492 million of euro compared to 2007 (-8.3%). The organic change in EBIT is a negative 736 million of euro (-11.3%).

The EBIT margin went from 19.2% in 2007 to 18.1% in 2008; at the organic level, the EBIT margin is 19.1% in 2008 (21.1% in 2007).

The following chart summarizes the changes in **EBIT**:

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

(millions of euro )	2008	2007	Change
Non-organic expenses already described under EBITDA	329	618	(289)
Non-recurring gains on sale of properties	(25)	(10)	(15)
Gain on disposal of Pay-per-View business segment	(9)		(9)
Impairment loss on European BroadBand goodwill	21		21
Impairment losses for industrial reconversions		6	(6)
Other income, net	(1)	(5)	4
<b>Total Non-organic (income) expenses</b>	<b>315</b>	<b>609</b>	<b>(294)</b>

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

Details are as follows:

(millions of euro )	2008	2007	Change
ETECSA	53	49	4
Sofora Telecomunicaciones	24	25	(1)
Tiglio I and Tiglio II	(7)	11	(18)
Other	(6)	1	(7)
<b>Total</b>	<b>64</b>	<b>86</b>	<b>(22)</b>

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**Review of financial and operating performance - Telecom Italia Group**



**Table of Contents****Other income (expenses) from investments**

Details are as follows:

(millions of euro )	2008	2007	Change
Dividends from Other investments	3	7	(4)
Net gains on disposals of Other investments	2	462	(460)
Writedown of Other investments	(1)	(2)	1
<b>Total</b>	<b>4</b>	<b>467</b>	<b>(463)</b>

In 2007, the Net gains on disposals of Other investments included, in particular, the gain on the disposal of the entire stakes held in Oger Telecom (86 million of euro), Capitalia (38 million of euro), Mediobanca (109 million of euro), Solpart Participações (201 million of euro) and Brasil Telecom Participações (27 million of euro).

**Finance income (expenses)**

Details are as follows:

(millions of euro )	2008	2007	Change
Fair value measurement of call options on 50% of Sofora Telecomunicaciones share capital	(190)	70	(260)
Income on bond buybacks	62		62
Early closing of cash flow derivatives	19	55	(36)
Writedown recognized on Lehman Brothers receivables	(58)		(58)
Net finance expenses, fair value adjustments of derivatives and other items	(2,467)	(2,309)	(158)
<b>Total</b>	<b>(2,634)</b>	<b>(2,184)</b>	<b>(450)</b>

With regard to the writedown recognized on receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., it should be noted that when Lehman Brothers Holding Inc. announced that it had begun bankruptcy proceedings, the Telecom Italia Group had derivative transactions hedging financial risks on existing financial payables with Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc. that were guaranteed by Lehman Brothers Holding Inc.

After the announcement, the Telecom Italia Group initiated legal action aimed at the early termination of those transactions and to recover the receivable. As a consequence of that action, since the Telecom Italia Group had a credit position with Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., it wrote down that receivable to estimated realizable value for a total amount of 58 million of euro.

The increase of 158 million of euro in finance expenses, fair value adjustments of derivatives and other items includes 70 million of euro for the effect of higher interest rates and the change in debt exposure, 36 million of euro for fair value adjustments of derivatives qualifying and not qualifying for hedge accounting, expenses generated by discounting to present value the debt on the purchase of the 3G mobile telephone licenses by the Brazil Business Unit (32 million of euro) and other minor items.

**Income tax expense**

Income tax expense totals 653 million of euro and decreased by 1,030 million of euro compared to 2007. The reduction is mainly due to the following factors:

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lower tax rates applied in calculating the current income tax in Italy: the IRES tax rate was reduced from 33% to 27.5% and the IRAP tax rate from 4.25% to 3.90% compared to 2007, with a total impact on the Parent, Telecom Italia, of 137 million of euro;

deferred tax assets recorded by some Group companies which became recoverable starting in 2008 (about 90 million of euro). The year 2007 had benefited from the net recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of subsidiaries residing in the European Union, for 96 million of euro;

tax realignment, with a net benefit of 515 million of euro, effected by some Group companies as allowed by Law 244 dated

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November 24, 2007, art. 1, paragraph 48 on the basis of which after recording a substitute tax of 533 million of euro, income was posted for 1,048 million of euro arising from deferred tax adjustments;

lower taxable income.

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

The loss from Discontinued operations/Non-current assets held for sale is 29 million of euro (a loss of 186 million of euro in 2007) and mainly includes the following:

the negative contribution of Liberty Surf group up to the date of its disposal for -188 million of euro (- 222 million of euro for the full-year 2007);

the gain of 160 million of euro, net of transaction costs, for the August 26, 2008 sale of the entire investment held in Liberty Surf Group S.A.S. (the holding company for BroadBand activities in France).

In 2007, besides the above, this item included 36 million of euro for the partial release of a provision net of additional charges for accruals and expenses connected with sales transactions which took place in prior years.

**Consolidated balance sheet and financial performance****Balance sheet structure**

(millions of euro )	12/31/2008	12/31/2007 <sup>(1)</sup>	Change	12/31/2007
<b>ASSETS</b>				
Non-current assets	70,942	70,056	886	70,688
<i>of which Goodwill</i>	<i>43,891</i>	<i>44,171</i>	<i>(280)</i>	<i>44,420</i>
Current assets	14,684	17,352	(2,668)	16,737
Discontinued operations/Non-current assets held for sale	9	768	(759)	
	<b>85,635</b>	<b>88,176</b>	<b>(2,541)</b>	<b>87,425</b>
<b>EQUITY AND LIABILITIES</b>				
Equity	26,856	26,985	(129)	26,985
Non-current liabilities	40,356	41,263	(907)	41,278
Current liabilities	18,423	18,997	(574)	19,162
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		931	(931)	
	<b>85,635</b>	<b>88,176</b>	<b>(2,541)</b>	<b>87,425</b>

(1) For comparison purposes, the data at 12/31/2007 has been prepared by considering Liberty Surf group in Discontinued operations/Non-current assets held for sale.

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**Table of Contents****Net financial debt and cash flows****Net financial debt**

Net financial debt at December 31, 2008 amounts to 34,039 million of euro, with a reduction of 1,662 million of euro compared to 35,701 million of euro at year-end 2007. Net debt is composed as follows:

(millions of euro )	12/31/2008	12/31/2007 <sup>(2)</sup>	Change	12/31/2007
<b>NON-CURRENT FINANCIAL LIABILITIES</b>				
Bonds	25,680	27,559	(1,879)	27,559
Amounts due to banks, other financial payables and other financial liabilities	9,134	7,671	1,463	7,683
Finance lease liabilities	1,713	1,809	(96)	1,809
	<b>36,527</b>	<b>37,039</b>	<b>(512)</b>	<b>37,051</b>
<b>CURRENT FINANCIAL LIABILITIES <sup>(1)</sup></b>				
Bonds	4,497	4,521	(24)	4,521
Amounts due to banks, other financial payables and other financial liabilities	1,496	1,807	(311)	1,802
Finance lease liabilities	274	262	12	262
	<b>6,267</b>	<b>6,590</b>	<b>(323)</b>	<b>6,585</b>
Financial liabilities directly associated with Non-current assets held for sale		701	(701)	
<b>TOTAL GROSS FINANCIAL DEBT</b>	<b>42,794</b>	<b>44,330</b>	<b>(1,536)</b>	<b>43,636</b>
<b>NON-CURRENT FINANCIAL ASSETS</b>				
Securities other than investments	(15)	(9)	(6)	(9)
Financial receivables and other financial assets	(2,648)	(686)	(1,962)	(686)
	<b>(2,663)</b>	<b>(695)</b>	<b>(1,968)</b>	<b>(695)</b>
<b>CURRENT FINANCIAL ASSETS</b>				
Securities other than investments	(185)	(387)	202	(390)
Financial receivables and other financial assets	(491)	(1,065)	574	(377)
Cash and cash equivalents	(5,416)	(6,449)	1,033	(6,473)
	<b>(6,092)</b>	<b>(7,901)</b>	<b>1,809</b>	<b>(7,240)</b>
Financial assets included in Non-current assets held for sale		(33)	33	
<b>TOTAL FINANCIAL ASSETS</b>	<b>(8,755)</b>	<b>(8,629)</b>	<b>(126)</b>	<b>(7,935)</b>
<b>TOTAL NET FINANCIAL DEBT</b>	<b>34,039</b>	<b>35,701</b>	<b>(1,662)</b>	<b>35,701</b>

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

	<i>Bonds</i>	4,497	4,521	(24)	4,521
	<i>Amounts due to banks, other financial payables and other financial liabilities</i>	684	1,072	(388)	1,074
	<i>Finance lease liabilities</i>	274	262	12	262

(2) For comparison purposes, the data at 12/31/2007 has been prepared by considering Liberty Surf group in Discontinued operations/Non-current assets held for sale.

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The non-current portion of gross financial debt totals 36,527 million of euro at December 31, 2008 (37,039 million of euro at year-end 2007) and corresponds to 85% of total gross financial debt. The composition of net financial debt, besides the effect of debt repayments which are higher than new proceeds, is particularly impacted by the fair value measurement of hedging derivatives and relative underlying hedged items, with such measurement recognized in both financial liabilities and financial assets.

The financial risk management policies of the Telecom Italia Group are directed 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.

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

In managing market risk, the Group adopts a guideline policy for debt management using derivative instruments and mainly uses IRS and CCIRS derivative financial instruments. Additional details are provided in the Note Derivatives.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on financial instruments denominated in currencies other than the euro and for the management of interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

The volatility that was a distinguishing factor of the financial markets in the last quarter of 2008, especially in reference to the levels of interest and exchange rates, positively affected the fair value measurement of derivatives hedging future variable contractual flows and, consequently, reduced the Group's net financial debt. This measurement does not entail an actual financial adjustment and its accounting effects are deferred in a specific Equity reserve, with an offsetting entry to the net financial debt of the Group.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2008:

(\*) Net of monetary flows of assets sold

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**Table of Contents****Net operating free cash flow**

(millions of euro)	2008	2007	Change
EBITDA	11,367	11,668	(301)
Capital expenditures on an accrual basis	(5,365)	(5,370)	5
Change in net operating working capital:	(513)	219	(732)
<i>Change in inventories</i>	(74)	(16)	(58)
<i>Change in trade receivables and net amounts due on construction contracts</i>	748	79	669
<i>Change in trade payables (*)</i>	(1,077)	1,025	(2,102)
<i>Other changes in operating receivables/payables</i>	(110)	(869)	759
Change in provisions for employees benefits	233	(214)	447
Change in operating provisions and Other changes	(249)	169	(418)
<b>Net operating free cash flow</b>	<b>5,473</b>	<b>6,472</b>	<b>(999)</b>

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

The positive contribution by EBITDA to Net operating free cash flow was countered by capital expenditure requirements and the change in net operating Working capital of - 513 million of euro. Specifically, the positive effect of the reduction of 748 million of euro in Trade receivables, generated by steps taken in respect of the management of receivables and improvements in collection capabilities, in addition to the decline in sales levels, was more than offset by the negative impact of lower Trade payables (-1,077 million of euro). The decrease in Trade payables was generated both by the programs to cut costs and capital expenditures, which had a greater effect in the second part of the year, and the fact that the last quarter of 2007 recorded a significant increase in capital expenditures, whose payment was made, at the due date, in the early part of 2008.

**Capital expenditures flow**

Capital expenditures flow is 5,365 million of euro and has remained basically unchanged compared to 2007. The breakdown is as follows:

(millions of euro)	2008		2007		Change
		%		%	
Domestic	3,658	68.2	4,064	75.7	(406)
Brazil	1,348	25.1	865	16.1	483
European BroadBand	352	6.6	358	6.7	(6)
Media, Olivetti and Other Operations	54	1.0	93	1.7	(39)
<i>Adjustments and Eliminations</i>	(47)	(0.9)	(10)	(0.2)	(37)
<b>Total</b>	<b>5,365</b>	<b>100.0</b>	<b>5,370</b>	<b>100.0</b>	<b>(5)</b>

The percentage of capital expenditures to revenues went from 17.3% in 2007 to 17.8% in 2008. The increase of 483 million of euro in the Brazil Business Unit is due to the purchase of the mobile telephone licenses for operating 3G services. Reference should be made to Business Units of the Telecom Italia Group for an in-depth analysis of the trend of capital expenditures in the individual Business Units.

The following also had an effect on net financial debt during 2008:

**Disposal of investments and other divestitures flow**

The disposal of investments and other divestitures flow amounts to 599 million of euro (1,074 million of euro in 2007). The amount mainly refers to the disposal of Liberty Surf group in August 2008 (744 million of euro, including the deconsolidation of the net financial debt of the subsidiary sold), the sale of the Pay-per-View business segment in December by Telecom Italia Media (16 million of euro), net of cash flows



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used during the period by the companies sold, as well as the reimbursement of capital and distribution of dividends by associates.

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### **Treasury shares buyback flow**

The treasury shares buyback flow refers to the purchase of 25 million of Telecom Italia ordinary shares in September to service the management incentive plan called *Performance Share Granting 2008* .

The buyback was 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.

The buyback required a total outlay of 27 million of euro, corresponding to an average price per share of euro 1.08451 (including agent fees).

### **Financial investments flow**

In 2008, financial investments were made for 6 million of euro, of which 5 million of euro was used for the Media Business Unit's purchase of a 9% stake in Air P TV Development Italy S.r.l. (now named DAHLIA TV S.r.l.) as part of the agreement for the disposal of the Pay-per-View business. In 2007, financial investments amounted to 635 million of euro and mainly referred to the acquisition of the AOL Internet activities in Germany.

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

These mainly include the payment of taxes and net finance expenses during the year and the change in non-operating receivables and payables.

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In the fourth quarter of 2008, net financial debt decreased by 1,731 million of euro, from 35,770 million of euro at September 30, 2008 to 34,039 million of euro at December 31, 2008. The reduction is the result of positive operating factors and the exchange differences on the translation of financial statements in currencies other than the Euro and the fair value measurement of derivatives.

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The following should also be mentioned with respect to net financial debt:

### **Sale of receivables to factoring companies**

The sale of receivables to factoring companies finalized in 2008 led to a positive effect on net financial debt at December 31, 2008 of 794 million of euro (755 million of euro at December 31, 2007).

### **Gross financial debt**

#### *Bonds*

Bonds at December 31, 2008 are recorded for 30,177 million of euro (32,080 million of euro at December 31, 2007). Their nominal repayment amount is 28,820 million of euro, with a reduction of 2,466 million of euro compared to December 31, 2007 (31,286 million of euro).

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Changes in bonds during 2008 are as follows:

	Currency	Amount (millions)	Issue date
<b>NEW ISSUES</b>			
Telecom Italia Finance S.A., issue, guaranteed by Telecom Italia S.p.A., for 138.83 million of euro, Euribor 3M + 1.3%, maturing 6/14/2010	Euro	138.83	6/12/2008
Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A, for USD 1 billion 6.999%, maturing 6/4/2018	USD	1,000	6/4/2008
Telecom Italia Capital S.A., issue, guaranteed by Telecom Italia S.p.A. for USD 1 billion 7.721%, maturing 6/4/2038	USD	1,000	6/4/2008
<b>REPAYMENTS</b>			
Telecom Italia Finance S.A. 5.875%, issued guaranteed by Telecom Italia S.p.A.	Euro	1,659	1/24/2008
Telecom Italia S.p.A. Floating Rate Notes Euribor 3M + 0.22%	Euro	750	6/9/2008
Telecom Italia Finance S.A. Euro 499,669,000 Floating Rate Extendable Notes, issue guaranteed by Telecom Italia S.p.A.	Euro	360.84	9/14/2008
Telecom Italia Capital S.A. USD 1,000,000,000, issue guaranteed by Telecom Italia S.p.A.	USD	1,000	11/15/2008
<b>BUYBACKS</b>			
Telecom Italia S.p.A., 850 million of euro 5.25% maturing 2055	Euro	180	
Telecom Italia S.p.A., 750 million of euro 4.75% maturing 2014	Euro	77	
Telecom Italia Finance S.A., 1,050 million of euro 7.75% maturing 2033	Euro	35	
Telecom Italia Finance S.A., 1,500 million of euro 5.15% maturing 2009	Euro	50	
Telecom Italia Finance S.A., 2,210 million of euro 6.575% maturing 2009	Euro	107	

**NOTES**

**Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group.** These total 348 million of euro (nominal amount) at December 31, 2008 and during 2008 increased by 51 million of euro (297 million of euro at December 31, 2007).

**Telecom Italia Finance S.A. bonds (2,000 million of euro 7.25%, maturing date of April 2011).** The coupons were increased by 0.25% due to a change in the credit rating by S&P's in March 2008. The step-up was applied starting from the April 2008 coupon; the new rate is now equal to 7.50%. The coupon was not affected by the downgrade made by Fitch's Rating.

**Telecom Italia Finance S.A. Euro 499,669,000 Guaranteed Floating Rate Extendable Notes due 2008.** In accordance with the Terms and Conditions, the holders of the bonds for a notional amount of euro 360,839,000 renounced the right to the possibility of extending the maturity date to 2010 and this amount was duly repaid on September 14, 2008. On June 12, 2008, bonds were issued for the residual amount and are denominated Telecom Italia Finance S.A. Euro 138,830,000 Guaranteed Floating Rate Extendable Notes due 2010 maturing on June 14, 2010.

**Bond buybacks:** during 2008, the Telecom Italia Group bought back bonds across the entire range of maturity dates in order to:

give investors a further possibility of monetizing their position, increasing the security's level of liquidity at a time of financial market uncertainty;

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

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**Table of Contents***Revolving Credit Facility and Term Loan*

The composition and drawdown of the syndicated committed credit lines available at December 31, 2008, represented by the Term Loan (TL) of 1.5 billion of euro expiring 2010 and the Revolving Credit Facility (RCF) for a total of 8 billion of euro expiring August 2014, are presented in the following table:

(billions of euro)	12/31/2008		12/31/2007	
	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
<b>Total</b>	<b>9.5</b>	<b>3.0</b>	<b>9.5</b>	<b>3.0</b>

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 of euro of which 23.8 million of euro has been disbursed;

under the TL, the bank has a commitment for 19.9 million of euro, for an amount completely disbursed.

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, entail changes compared to the situation prior to the bankruptcy of Lehman Brothers Holding Inc.

**Maturities of financial liabilities and average cost of debt**

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities) is 7.79 years.

The Group's average cost, considered as the cost for the period calculated on an annual basis and derived from the ratio of debt-related expenses to average exposure, is equal to about 6%.

The maturities of financial liabilities in terms of both the carrying amount (including measurements based on fair value adjustments and amortized cost, included in accrued expenses) and the expected nominal repayment amount, as contractually agreed, are as follows:

Maturities of financial liabilities:

(millions of euro)	Carrying amount	Nominal repayment amount
<b>Maturing by 12/31 of the year:</b>		
2009 <sup>(*)</sup>	6,267	5,110
2010	5,361	5,214
2011	4,823	4,742
2012	3,553	3,533
2013	3,799	3,756
After 2013	18,991	17,863
<b>Total gross financial debt</b>	<b>42,794</b>	<b>40,218</b>

(\*) Including the carrying amount and nominal repayment amount of current liabilities, respectively, of 812 million of euro and 782 million of euro.

**Current financial assets and Liquidity margin**

Current financial assets amount to 6,092 million of euro (7,901 million of euro at December 31, 2007). The available liquidity margin of the Telecom Italia Group, calculated as the sum of *Cash and cash equivalents and Securities other than investments*, totals 5,601 million of euro at December 31, 2008 (6,836 million of euro at December 31, 2007) which, together with unused committed credit lines of 6.5 billion of euro, allows a broad coverage of the Group's repayment obligations over the next 18-24 months.

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**Table of Contents****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.

**Consolidated equity**

Consolidated equity amounts to 26,856 million of euro (26,985 million of euro at December 31, 2007), of which 26,126 million of euro is attributable to the equity holders of the Parent (25,922 million of euro at December 31, 2007) and 730 million of euro is attributable to Minority Interest (1,063 million of euro at December 31, 2007). Details of the changes in equity are as follows:

(millions of euro)	2008	2007
<b>At beginning of the year</b>	<b>26,985</b>	<b>27,098</b>
Bond conversions, assignments of equity instruments and purchase of treasury shares	(26)	2
Profit attributable to equity holders of the Parent and Minority interest	2,215	2,455
Dividends declared by:	(1,668)	(2,840)
- <i>Telecom Italia S.p.A.</i>	(1,609)	(2,766)
- <i>Other Group companies</i>	(59)	(74)
Movements in the fair value reserve of available-for-sale assets and derivative hedging instruments	225	74
Translation differences, changes in the scope of consolidation and other changes	(875)	196
<b>At end of the year</b>	<b>26,856</b>	<b>26,985</b>

**Discontinued operations**

On August 26, 2008, the Group finalized the sale to Iliad S.A. of the entire investment held by Telecom Italia in Liberty Surf Group S.A.S., the Internet Service Provider operating in France mainly with Telecom Italia's Alice brand.

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In accordance with post-closing contractual price adjustment mechanisms, on November 14, 2008, a Settlement Agreement was signed on the basis of which Telecom Italia paid Iliad a total amount of 10 million of euro for the post-closing price adjustment based on the change in the net financial position and in the number of customers at the closing date.

The effects of the sale on the consolidated financial statements at December 31, 2008, calculated on the basis of the Enterprise Value of the sale, equal to 800 million of euro, and a Net financial debt of the company estimated at the time of sale at approximately 300 million of euro, are:

a reduction in the net financial debt of the Telecom Italia Group of 744 million of euro, including the deconsolidation of the net financial debt of the subsidiary sold;

a positive impact on the consolidated income statement of 160 million of euro, net of transaction costs.

Furthermore, at the time of sale, on August 26, 2008, a contract was signed for the supply of technical services to Liberty Surf group by Telecom Italia S.p.A. under which Telecom Italia S.p.A. agrees to supply IT and network services and technical support for the migration of the customer base. The annual fee to which Telecom Italia is entitled is 15 million of euro and the contract period is 12 months and can be extended to 18 months.

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### **Events subsequent to December 31, 2008**

With regard to significant subsequent events, reference should be made to the specific Note "Events subsequent to December 31, 2008" in the consolidated financial statements at December 31, 2008 of the Telecom Italia Group.

### **Business outlook for the Year 2009**

The Telecom Italia Group confirms its current year profit and financial targets announced at the end of 2008 during the presentation of the Group's 2009-2011 Three-year Plan.

The main profit and financial targets for the full-year 2009 are:

Organic revenues and EBITDA margin (at the same exchange rates and scope of consolidation in 2009) stable against 2008;

Capital expenditures for approximately 4.8 billion of euro;

Net debt/EBITDA ratio at about 2.9 at year-end 2009.

### **Major risks and uncertainties**

The future outlook for the year 2009 may be influenced by risks and uncertainties generated by a number of factors, the major part of which is outside the Group's control.

A description of the main risk factors and uncertainties that could affect the Telecom Italia Group's operations in 2009 is provided below.

### **Macroeconomic performance**

From the macroeconomic standpoint, the crisis currently affecting the global economy, a crisis expected to continue for the whole of 2009, takes the form of a general contraction in consumption, but shows different levels of intensity in different geographical areas and different markets. With regard to the **Italian market**, the recession is expected to have the greatest impact on the demand for investments and on the purchase of consumer durable goods and articles of mass-consumption, whereas it is expected to have less impact on services like telecommunications. In 2009, the GDP is expected to fall by approximately -2%.

As for the **South American market**, and especially Brazil, it is important to highlight the fact that, for the time being, the volatility that has traditionally typified these economies during international economic crises is much less pronounced than in the past. In fact, the whole continent seems to be more favorably placed than in the past to tackle the current economic problems, for the following reasons:

greater political stability as a result of measures intended to make structural improvements to the economy and the social system;

a fiscal surplus, generated by high levels of economic growth, combined with record commodities prices and an accumulation of currency reserves;

effective control of inflation, with the partial exception of Argentina;

strong discipline with regard to monetary policy;

a relatively low unemployment rate.

In this context, the outlook for 2009 is for modest economic growth. After years of sustained growth, uncontrolled volatility is not expected to affect any of the main macroeconomic areas (inflation rates, interest rates and exchange rates) of Latin America's largest countries, particularly Brazil. In fact, Brazil has made significant progress, having reached an energy breakeven and now has solid food reserves. These factors mean that the country is less vulnerable than it was in the past to external shocks.

**Trend of the Telecommunications market**

Telecommunications is proving to be one of the industrial segments least affected by pro-cyclical trends since our society has an increasing need to communicate. Communications now play a crucial role in the sector as an enabler and multiplier of productivity. This is also confirmed by the continuous growth in the demand for mobile telephone-based data services, such as accessing e-mail and surfing the Internet using the now widely adopted 3G technology.

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**Events subsequent to December 31, 2008 - Business outlook for the Year 2009**

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In addition, the macroeconomic context may weigh heavily on the development prospects of the **Domestic** market, particularly with regard to the next phase of value-added services penetration and the volume of business. This applies particularly to the business clientele segment (professionals and small and medium-size businesses), where it is more likely that the change in the macroeconomic scenario could have a negative effect on Revenues. If so, this negative trend could affect expected Revenues from all sales of Telecommunication services and products.

In South America, and even more markedly in **Brazil**, further growth is expected in the telecommunications market, especially in the segments of mobile services and broadband. In the broadband segment, mobile broadband is expected to constitute a particularly competitive alternative to fixed-line broadband, given that upgrading the fixed-line network in a way that would offer the level of service already available on HSDPA networks (like that of Tim Brasil) would be extremely expensive. Upgrading the network in Brazil is a far more onerous process than in Italy, which has a more compact geography and where the existing network is of a higher standard.

With this in mind, Tim Brasil will concentrate some of its investments on developing the mobile broadband network in selected geographical areas with the aim of augmenting its market share in the broadband segment. Meanwhile it will continue to pay special attention to the balance between capital expenditures and the relative returns on capital.

In this general context, since the company is well aware of the extent of the global crisis and of the possible impact on its business performance, it is constantly monitoring the performance of its most exposed business segments and is already proceeding with plans to improve efficiency and optimize expenditures. These measures will ensure that it reaches its objectives in terms of generating cash flows and reducing its level of indebtedness.

### **Financial risks**

In a scenario of highly volatile financial markets dominated by uncertainties, Telecom Italia proceeded to refinance its debt during the early months of 2009 by issuing bonds for 500 million of euro and signing a loan contract with the EIB for 600 million of euro.

The Telecom Italia Group practices a centralized financial risk management policy for market, credit and liquidity risks, for example, by defining the guidelines for directing operations, identifying the most appropriate financial instruments to meet prefixed objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a treasury margin in terms of liquid resources and syndicated committed credit lines which makes it possible to cover refinancing requirements at least for the next 12-18 months.

The specific context of the financial markets has persuaded the Telecom Italia Group to adopt an attitude that is more conservative than the one mentioned above, and at the end of 2008 the Telecom Italia Group has a treasury margin capable of meeting repayment obligations for the next 24 months. The Group can therefore wait for the best time to enter the financial market, without making a change in its 2009 target of refinancing part of its maturing debt and still maintain a high treasury margin in order to avoid any unforeseen market tension.

For additional details, reference should be made to the Note Financial risk management in the annual consolidated financial statements at December 31, 2008 of the Telecom Italia Group.

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**Business outlook for the Year 2009**

**Table of Contents****Consolidated financial statements - Telecom Italia Group****Consolidated income statements**

(million of euro)	Year 2008 (a)	Year 2007 (b)	Change	
			(a-b)	%
Revenues	30,158	31,013	(855)	(2.8)
Other income	356	406	(50)	(12.3)
<b>Total operating revenues and other income</b>	<b>30,514</b>	<b>31,419</b>	<b>(905)</b>	<b>(2.9)</b>
Acquisition of goods and services	(13,876)	(14,255)	379	(2.7)
Employee benefits expenses	(4,220)	(3,822)	(398)	10.4
Other operating expenses	(1,696)	(2,231)	535	(24.0)
Changes in inventories	114	11	103	
Internally generated assets	531	546	(15)	(2.7)
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)</b>	<b>11,367</b>	<b>11,668</b>	<b>(301)</b>	<b>(2.6)</b>
Depreciation and amortization	(5,906)	(5,674)	(232)	4.1
Gains (losses) on disposals of non-current assets	35	5	30	°
Impairment reversals (losses) on non-current assets	(33)	(44)	11	(25.0)
<b>OPERATING PROFIT (EBIT)</b>	<b>5,463</b>	<b>5,955</b>	<b>(492)</b>	<b>(8.3)</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	64	86	(22)	(25.6)
Other income (expenses) from investments	4	467	(463)	(99.1)
Finance income	3,724	2,908	816	28.1
Finance expenses	(6,358)	(5,092)	(1,266)	24.9
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>2,897</b>	<b>4,324</b>	<b>(1,427)</b>	<b>(33.0)</b>
Income tax expense	(653)	(1,683)	1,030	(61.2)
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>2,244</b>	<b>2,641</b>	<b>(397)</b>	<b>(15.0)</b>
Profit or loss from Discontinued operations/ Non-current assets held for sale	(29)	(186)	157	(84.4)
<b>PROFIT FOR THE YEAR</b>	<b>2,215</b>	<b>2,455</b>	<b>(240)</b>	<b>(9.8)</b>
of which:				
* Profit attributable to equity holders of the Parent	2,214	2,448	(234)	(9.6)
* Profit (loss) attributable to Minority Interest	1	7	(6)	(85.7)

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**Consolidate financial statements - Telecom Italia Group**

**Table of Contents****Consolidated balance sheets**

(millions of euro)	12/31/2008 (a)	12/31/2007 restated (1) (b)	Change (a-b)	12/31/2007
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Intangible assets</b>				
Goodwill	43,891	44,171	(280)	44,420
Intangible assets with a finite useful life	6,492	6,750	(258)	6,985
	<b>50,383</b>	<b>50,921</b>	<b>(538)</b>	<b>51,405</b>
<b>Tangible assets</b>				
Property, plant and equipment owned	14,252	15,338	(1,086)	15,484
Assets held under finance leases	1,410	1,450	(40)	1,450
	<b>15,662</b>	<b>16,788</b>	<b>(1,126)</b>	<b>16,934</b>
<b>Other non-current assets</b>				
Investments in associates and joint ventures accounted for using the equity method	496	484	12	484
Other investments	57	57		57
Securities, financial receivables and other non-current financial assets	2,663	695	1,968	695
Miscellaneous receivables and other non-current assets	694	864	(170)	866
Deferred tax assets	987	247	740	247
	<b>4,897</b>	<b>2,347</b>	<b>2,550</b>	<b>2,349</b>
<b>TOTAL NON-CURRENT ASSETS (A)</b>	<b>70,942</b>	<b>70,056</b>	<b>886</b>	<b>70,688</b>
<b>CURRENT ASSETS</b>				
Inventories	379	307	72	308
Trade and miscellaneous receivables and other current assets	8,101	9,043	(942)	9,088
Current income tax receivables	73	101	(28)	101
Investments	39		39	
Securities other than investments	185	387	(202)	390
Financial receivables and other current financial assets	491	1,065	(574)	377
Cash and cash equivalents	5,416	6,449	(1,033)	6,473
<b>Current assets sub-total</b>	<b>14,684</b>	<b>17,352</b>	<b>(2,668)</b>	<b>16,737</b>
<b>Discontinued operations/Non-current assets held for sale</b>				
of a financial nature		33	(33)	
of a non-financial nature	9	735	(726)	
	<b>9</b>	<b>768</b>	<b>(759)</b>	
<b>TOTAL CURRENT ASSETS (B)</b>	<b>14,693</b>	<b>18,120</b>	<b>(3,427)</b>	<b>16,737</b>
<b>TOTAL ASSETS (A+B)</b>	<b>85,635</b>	<b>88,176</b>	<b>(2,541)</b>	<b>87,425</b>

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Consolidate financial statements - Telecom Italia Group

**Table of Contents**

(millions of euro)	12/31/2008 (a)	12/31/2007 restated (1) (b)	Change (a-b)	12/31/2007
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Equity attributable to equity holders of the Parent	26,126	25,922	204	25,922
Equity attributable to Minority Interest	730	1,063	(333)	1,063
<b>TOTAL EQUITY (C)</b>	<b>26,856</b>	<b>26,985</b>	<b>(129)</b>	<b>26,985</b>
<b>NON-CURRENT LIABILITIES</b>				
Non-current financial liabilities	36,527	37,039	(512)	37,051
Employee benefits	1,212	1,151	61	1,151
Deferred tax liabilities	386	584	(198)	586
Provisions	692	902	(210)	903
Miscellaneous payables and other non-current liabilities	1,539	1,587	(48)	1,587
<b>TOTAL NON-CURRENT LIABILITIES (D)</b>	<b>40,356</b>	<b>41,263</b>	<b>(907)</b>	<b>41,278</b>
<b>CURRENT LIABILITIES</b>				
Current financial liabilities	6,267	6,590	(323)	6,585
Trade and miscellaneous payables and other current liabilities	10,896	12,210	(1,314)	12,380
Current income tax payables	1,260	197	1,063	197
<b>Current liabilities sub-total</b>	<b>18,423</b>	<b>18,997</b>	<b>(574)</b>	<b>19,162</b>
<b>Liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>				
of a financial nature		701	(701)	
of a non-financial nature		230	(230)	
		<b>931</b>	<b>(931)</b>	
<b>TOTAL CURRENT LIABILITIES (E)</b>	<b>18,423</b>	<b>19,928</b>	<b>(1,505)</b>	<b>19,162</b>
<b>TOTAL LIABILITIES (F=D+E)</b>	<b>58,779</b>	<b>61,191</b>	<b>(2,412)</b>	<b>60,440</b>
<b>TOTAL EQUITY AND LIABILITIES (C+F)</b>	<b>85,635</b>	<b>88,176</b>	<b>(2,541)</b>	<b>87,425</b>

- (1) For purposes of comparisons with June 30, 2008, the figures at December 31, 2007 have been restated in order to consider the Liberty Surf group within discontinued operations.

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Consolidate financial statements - Telecom Italia Group

**Table of Contents****Consolidated cash flows statements**

(millions of euro)	Year 2008	Year 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit from continuing operations	2,244	2,641
<i>Adjustment for:</i>		
Depreciation and amortization	5,906	5,674
Impairment losses (reversals) of non-current assets (including investments)	233	(34)
Net change in deferred tax assets and liabilities	(1,043)	931
Losses (gains) realized on disposals of non-current assets (including investments)	(37)	(467)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(64)	(86)
Change in employee benefits	233	(214)
Change in inventories	(74)	(16)
Change in trade receivables and net receivables on construction contracts	748	79
Change in trade payables	(637)	783
Net change in miscellaneous receivables/payables and other assets/liabilities	896	(520)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)</b>	<b>8,405</b>	<b>8,771</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<i>Purchase of intangible assets on an accrual basis</i>	<i>(2,514)</i>	<i>(2,253)</i>
<i>Purchase of tangible assets on an accrual basis</i>	<i>(2,851)</i>	<i>(3,117)</i>
Total purchase of intangible and tangible assets on an accrual basis	(5,365)	(5,370)
<i>Change in amounts due to fixed asset suppliers</i>	<i>(440)</i>	<i>242</i>
Total purchase of intangible and tangible assets on a cash basis	(5,805)	(5,128)
Acquisition of subsidiaries and businesses, net of cash acquired		(636)
Acquisition of other investments	(6)	(1)
Change in financial receivables and other financial assets	(1,612)	201
Proceeds from sale of subsidiaries, net of cash disposed of	452	4
Proceeds from sale/repayment of intangible, tangible and other non-current assets	97	1.162
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)</b>	<b>(6,874)</b>	<b>(4,398)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in current financial liabilities and other	1,267	202
Proceeds from non-current financial liabilities (including current portion)	2,357	2,622
Repayments of non-current financial liabilities (including current portion)	(4,315)	(5,218)
Proceeds from equity instruments	1	
Considerations paid for equity instruments	(27)	
Dividends paid	(1,665)	(2,831)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>	<b>(2,382)</b>	<b>(5,225)</b>
<b>CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)</b>	<b>(10)</b>	<b>72</b>
<b>AGGREGATE CASH FLOWS (E=A+B+C+D)</b>	<b>(861)</b>	<b>(780)</b>
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)</b>	<b>6,204</b>	<b>6,960</b>
Net foreign exchange differences on net cash and cash equivalents (G)	(117)	24
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)</b>	<b>5,226</b>	<b>6,204</b>

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**Consolidate financial statements - Telecom Italia Group**



**Table of Contents****Additional cash flow information:**

(millions of euro)	Year 2008	Year 2007
Income taxes (paid) received	(633)	(501)
Interests expense paid	(3,429)	(3,752)
Interests income received	1,256	1,513
Dividends received	49	59

**ANALYSIS OF NET CASH AND CASH EQUIVALENTS:**

(millions of euro)	Year 2008	Year 2007
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:</b>		
Cash and cash equivalents - from continuing operations	6,449	7,260
Bank overdrafts repayable on demand - from continuing operations	(275)	(258)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	30	5
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale		(47)
	<b>6,204</b>	<b>6,960</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:</b>		
Cash and cash equivalents - from continuing operations	5,416	6,449
Bank overdrafts repayable on demand - from continuing operations	(190)	(275)
Cash and cash equivalents - from Discontinued operations/Non-current assets for sale		30
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale		(47)
	<b>5,226</b>	<b>6,204</b>

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**Consolidate financial statements - Telecom Italia Group**

**Table of Contents****Highlights - Business Units of the Telecom Italia Group**

The data of the Telecom Italia Group is presented in this Annual Report 2008 according to the following operating segments:

**Domestic** Business Unit: domestic operations of Fixed-line Telecommunications (divided into Retail Voice, Internet, Data business and Wholesale) and Mobile Telecommunications as well as the relative support activities

**Brazil** Business Unit: Telecommunications operations in Brazil

**European BroadBand** Business Unit: BroadBand services in Germany and the Netherlands

**Media** Business Unit: Television and News activities;

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

**Other operations:** financial companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Information by operating segment is as follows:

	Revenues		EBITDA		EBIT		Capital expenditures		Headcount at year end (number)	
	2008	2007	2008	2007	2008	2007	2008	2007	12/31/2008	12/31/2007 restated (1)
(millions of euro)										
Domestic	23,268	24,220	9,998	10,174	5,444	5,751	3,658	4,064	61,816	64,362
Brazil	5,208	4,990	1,217	1,207	189	150	1,348	865	10,285	10,030
European BroadBand	1,274	1,151	245	297	(30)	122	352	358	2,912	3,191
Media	287	263	(59)	(55)	(113)	(117)	50	69	967	1,016
Olivetti	352	408	(30)	(44)	(37)	(66)	3	8	1,194	1,279
Other operations	134	251	11	94	2	63	1	16	651	2,191
<i>Adjustments and Eliminations</i>	(365)	(270)	(15)	(5)	8	52	(47)	(10)		
<b>Totale consolidato</b>	<b>30,158</b>	<b>31,013</b>	<b>11,367</b>	<b>11,668</b>	<b>5,463</b>	<b>5,955</b>	<b>5,365</b>	<b>5,370</b>	<b>77,825</b>	<b>82,069</b>

- (1) For comparison purposes, the data at 12/31/2007 has been prepared by considering Liberty Surf group in Discontinued operations/Non-current assets held for sale.

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

	12/31/2008	12/31/2007	12/31/2006
<b>DOMESTIC FIXED-LINE</b>			
Fixed-line network connections in Italy (thousands)	20,031	22,124	23,698
Physical accesses at year-end(Consumer +Business) (thousands)	17,352	19,221	20,540
Voice pricing plans (thousands)	5,834	6,375	6,468
Broadband accesses in Italy (thousands)	8,134	7,590	6,770
<i>of which retail (thousands)</i>	<i>6,754</i>	<i>6,427</i>	<i>5,600</i>
Virgilio page views during year (millions)	16,405	14,737	13,283
Virgilio average daily single visitors (millions)	2.5	2.1	1.8
<b>Network infrastructure in Italy:</b>			
- access network in copper (millions of km - pair)	109.3	106.8	105.7
- access and carrier network in optical fiber (millions of km of fiber)	3.9	3.8	3.7
<b>Network infrastructure abroad:</b>			
- European backbone (km of fiber)	55,000	55,000	51,000
- Mediterranean (km of submarine cable)	7,000	7,000	7,000
- South America (km of fiber)	30,000	30,000	30,000
<b>Total traffic:</b>			
Minutes of traffic on fixed-line network (billions)	144.3	156.8	173.8
- National traffic	125.3	140.1	160.1
- International traffic	19.0	16.7	13.7
<b>DOMESTIC MOBILE</b>			
Number of lines at year-end (thousands)	34,797	36,331	32,450
<i>of which Prepaid lines (thousands) <sup>(1)</sup></i>	<i>28,660</i>	<i>30,834</i>	<i>28,080</i>
Clientele growth (%)	(4.2)	12.0	13.6
Churn rate <sup>(2)</sup>	23.6	16.4	18.9
Total outgoing traffic per month (millions of minutes)	3,054	2,766	2,443
Total outgoing and income traffic per month (millions of minutes)	4,316	4,052	3,730
Average monthly revenue per line <sup>(3)</sup>	20.8	22.2	25.6
<b>BRAZIL</b>			
Number of lines at year-end (thousands)	36,402	31,254	25,410
<b>EUROPEAN BROADBAND <sup>(4)</sup></b>			
Broadband connections in Europe at year-end (thousand)	2,510	2,537	1,138
<b>MEDIA</b>			
La7 audience share Free to Air (analog mode) (average during year, in %)	3.1	3.0	3.0
La7 audience share Free to Air (analog mode) (last month of year, in %)	3.0	3.1	3.1

<sup>(1)</sup> Excluding not human SIM.

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

<sup>(3)</sup> The values are calculated on the basis of revenues from services (including revenues from prepaid cards and revenues from non-domestic traffic) as a percentage of the average number of lines.

<sup>(4)</sup> For purposes of comparison, the data presented excludes the broadband accesses of Liberty Surf group (902 thousand at December 31, 2007 and 775 thousand at December 31, 2006) following the sale of the company to Iliad S.A., finalized on August 26, 2008.

**Highlights - Business Units of the Telecom Italia Group**

**Table of Contents****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 telephone and data services on fixed-line and mobile networks for final retail voice customers and other wholesale operators. In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

**The structure of the Business Unit**

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

**Main operating and financial data**

Key results by the Domestic Business Unit in 2008 compared to 2007 are presented in the following table:

(millions of euro)	2008	2007	amount	Change %	% organic
Revenues	23,268	24,220	(952)	(3.9)	(3.9)
EBITDA	9,998	10,174	(176)	(1.7)	(4.3)
<i>% of Revenues</i>	<i>43.0</i>	<i>42.0</i>			
EBIT	5,444	5,751	(307)	(5.3)	(9.5)
<i>% of Revenues</i>	<i>23.4</i>	<i>23.7</i>			
Capital expenditures	3,658	4,064	(406)	(10.0)	
Headcount at year-end (number)	61,816	64,362	(2,546)	(4.0)	
<b>Fixed accesses and mobile lines</b>					

At December 31, 2008, the number of retail voice accesses is around 17.4 million, posting a decrease of about 1.9 million compared to December 31, 2007. The Wholesale customer portfolio reached approximately 5 million accesses at year-end 2008, up about 1.5 million from December 31, 2007. The overall Broadband portfolio increased and reached 8.1 million accesses at December 2008 (+544 thousand accesses compared to December 31, 2007) of which 6.8 million are retail and 1.3 million are wholesale.

At December 31, 2008, the number of GSM and UMTS mobile lines of Telecom Italia is approximately 34.8 million (of which 7.3 million are UMTS lines), a decrease from 2007 (-4.2%). At December 31, 2008, Telecom Italia's market share is 38%, down from December 31, 2007 (40.3%). This reduction can be attributed to greater selectivity in the sales policy focusing on higher-value customers; this strategy is confirmed by the number of postpaid lines (about 6 million at year-end 2008) which increased by 12.5%, accounting for 17.3% of total lines. The decrease is also due to the closing of a higher number of silent lines (over 1.3 million lines were closed down from December 2007 to the end of 2008).

**Table of Contents****Revenues**

Details of the various components of the Business Unit's revenues are presented as follows:

(millions of euro)	2008	2007	Change	
			amount	%
Fixed-line telecommunications	15,000	15,727	(727)	(4,6)
Mobile telecommunications	9,729	9,922	(193)	(1,9)
Eliminations and contribution by central functions	(1,461)	(1,429)	(32)	
<b>TOTAL</b>	<b>23,268</b>	<b>24,220</b>	<b>(952)</b>	<b>(3,9)</b>

**Fixed-line Telecommunications**

In 2008, revenues of the fixed-line Telecommunications area amount to 15,000 million of euro and decreased 727 million of euro from last year (-4.6%). At the organic level, excluding the foreign exchange effect, the change in the scope of consolidation and non-organic elements, revenues fell by 664 million of euro (-4.2%). However, a trend of improvement can be seen during 2008 which was evident in the fourth quarter of 2008 where revenues decreased only 2.3% compared to the corresponding quarter of 2007. The following chart shows the trend of revenues in the major business areas:

**Retail voice**

(millions of euro)	2008		2007		Change	
		%		%	amount	%
Traffic	3,118	41.4	3,524	42.2	(406)	(11.5)
Accesses	3,668	48.7	3,938	47.1	(270)	(6.9)
VAS services	257	3.4	357	4.3	(100)	(28.0)
Telephone products	486	6.5	539	6.4	(53)	(9.8)
<b>Total Retail Voice</b>	<b>7,529</b>	<b>100.0</b>	<b>8,358</b>	<b>100.0</b>	<b>(829)</b>	<b>(9.9)</b>

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**The Business Units of the Telecom Italia Group - Domestic**

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Retail voice revenues show an ongoing contraction in the customer base and traffic volumes due to the competitive environment in which the company operates. In 2008, the number of Telecom Italia retail voice lines fell by about 1.9 million compared to year-end 2007 (-10%). This was partly prompted by the availability, starting from 2008, of new access solutions to the Telecom Italia network (Wholesale Line Rental) typically targeting customers who had previously migrated their telephone traffic to alternative operators using non-infrastructure solutions such as carrier selection and pre-selection. The impact in terms of lower access revenues (-270 million of euro), for the domestic business, was partly compensated by the growth of national wholesale services.

The national market, following the international trend, continues its migration from fixed-mobile to mobile-mobile solutions. This, in fact, accounts for more than 50% of the total contraction in traffic revenues (-406 million of euro).

In addition to the market changes above, retail voice revenues were also affected during the year by the following:

the effect of the reduction in regulated fixed-mobile termination rates (about 100 million of euro entirely compensated by lower interconnection costs with mobile operators)

the discontinuance of some obligatory and voluntary Premium services which had a sharp impact on these revenues (-100 million of euro compared to the prior year).

**Internet**

(millions of euro)	2008		2007		Change	
	amount	%	amount	%	amount	%
Narrowband	60	3.7	84	5.7	(24)	(28.6)
Broadband	1,570	96.3	1,384	94.3	186	13.4
<i>of which content/portal</i>	<i>120</i>		<i>78</i>		<i>42</i>	<i>53.8</i>
<b>Total Internet</b>	<b>1,630</b>	<b>100.0</b>	<b>1,468</b>	<b>100.0</b>	<b>162</b>	<b>11.0</b>

The total domestic retail Broadband access portfolio grew by 327,000 from year-end 2007 to 6.8 million at year-end 2008. Within the scope of this expansion of the customer base and consistent with the value strategy followed by the company for the entire year, Flat-rate packages now account for 77% of the total retail Broadband customer portfolio, up 677,000 from year-end 2007. The VoIP customer portfolio reached about 2 million accesses and stands at 30% of total retail Broadband accesses. IPTV expansion continues on the Consumer market (the portfolio is now at 329,000 customers, +249,000 compared to year-end 2007), while offers and web activities are being developed through the Virgilio/Alice portal.

The above sales actions led to a growth in Broadband revenues of 13.4% (+ 186 million of euro).

**Business Data**

(millions of euro)	2008		2007		Change	
	amount	%	amount	%	amount	%
Leased Lines	198	11.5	239	14.3	(41)	(17.2)
Traditional DT	71	4.1	71	4.2		
Innovative DT	480	27.9	510	30.5	(30)	(5.9)
Data products	211	12.3	208	12.4	3	1.4
ICT services	760	44.2	645	38.6	115	17.9
<b>Total Business Data</b>	<b>1,720</b>	<b>100.0</b>	<b>1,673</b>	<b>100.0</b>	<b>47</b>	<b>2.8</b>

Revenues of the Business Data area rose by 47 million of euro (+2.8%) from 2007. This highlights the company's ability to counter the contraction in data transmission and connectivity services supplied to companies with the development of revenues from ICT services which increased by 115 million of euro (+17.9%).

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**Table of Contents****Wholesale**

(millions of euro)	2008		2007		Change	
		%		%	amount	%
National wholesale	2,448	64.9	2,374	62.7	74	3.1
International wholesale	1,323	35.1	1,412	37.3	(89)	(6.3)
<b>Total wholesale</b>	<b>3,771</b>	<b>100.0</b>	<b>3,786</b>	<b>100.0</b>	<b>(15)</b>	<b>(0.4)</b>

The customer portfolio of Telecom Italia's Wholesale division reached about 5 million accesses for telephone services and 1.3 million for Broadband services at year-end 2008. Such dynamics generated a positive impact on the national wholesale business which shows, compared to the correlated revenues from access services to the Telecom Italia network, an increase of 198 million of euro, excluding the impact of the reduction in regulated prices of 85 million of euro.

Despite the effect of lower incoming traffic, revenues from national Wholesale, on the whole, rose by 74 million of euro (+3.1%) over the prior year.

In international Wholesale services where the Telecom Italia Group operates through Telecom Italia Sparkle and its subsidiaries, revenues fell by 89 million of euro (-6.3%) compared to 2007. The reduction is entirely due to lower transit revenues generated by the termination of some contracts beginning in the second quarter of 2007 (producing a total impact of 166 million of euro). Excluding this element, revenues continue to expand and confirm the positive trend of past years.

**Mobile Telecommunications**

Mobile Telecommunications revenues for 2008 total 9,729 million of euro, down by 193 million of euro from 2007. However, the organic change in the fourth quarter of 2008 is a positive 2.4% against the corresponding quarter of 2007.

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

Outgoing voice revenues total 4,965 million of euro, with a reduction of 276 million of euro (-5.3%) from 2007. In the fourth quarter, a consumer customer rate repricing policy brought the quarter's performance in line with the same quarter of the prior year (1,248 million of euro, + 1 million of euro compared to 2007).

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Incoming voice revenues of 1,356 million of euro are 158 million of euro (-10.4%) lower than in 2007 due to the reduction in mobile termination prices (-12% compared to 2007).

Value-added services (VAS) revenues amount to 2,173 million of euro and grew by 12.7% compared to 2007. Such growth was boosted by the steady increase in Broadband customers ( web broadband active users ) which rose by 1.4 million to 2.6 million users at year-end 2008.

This scenario led to an increase in interactive VAS service revenues of more than 30% (+ 263 million of euro) which entirely accounts for the above revenue growth over the prior year. Traditional VAS revenues (messaging) are basically in line with the prior year.

The growing contribution of these services is also confirmed by the percentage of VAS revenues to all service revenues which now stands at about 25% (22% in 2007).

Handset sale revenues are 860 million of euro, gaining 86 million of euro over 2007. Although the overall quantity of handsets sold decreased, the growth in revenues was achieved by improving the product mix with handsets in the high-end range (3G, Netbooks and Internet Keys which accounted for more than 60% of handset volume sales in 2008) leading to higher average prices (+24%). This policy was a key factor in contributing to raising innovative VAS penetration.

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**EBITDA**

EBITDA amounts to 9,998 million of euro and is 176 million of euro lower than in 2007. The EBITDA margin is 43.0% (up 1.0 percentage points against the prior year).

The organic change in EBITDA compared to 2007 is a negative 460 million of euro (-4.3%) with an EBITDA margin of 44.3% (44.5% in 2007). Details are as follows:

(millions of euro)	2008	2007	Change
<b>HISTORICAL EBITDA</b>	<b>9,998</b>	<b>10,174</b>	<b>(176)</b>
Effect of change in scope of consolidation		11	
Effect of change in exchange rates		(4)	
Expenses for mobility under Law 223/91	287		
Disputes and settlements with other operators	33	448	
Termination rates (fixed-fixed) list adjustments		92	
Other expenses, net	3	40	
Antitrust fine		20	
<b>COMPARABLE EBITDA</b>	<b>10,321</b>	<b>10,781</b>	<b>(460)</b>

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

*acquisition of goods and services* totals 9,644 million of euro, with a reduction of 571 million of euro (-5.6%) compared to 2007. The change is mainly due to a decrease in the amount to be paid to other operators following the reduction in the termination rates of voice calls on the networks of other operations from fixed-line and mobile networks and a decrease in International Wholesale transits due to the termination of some contracts beginning in the second quarter of 2007. It should be noted that interconnection costs in 2007 had also been affected by the resolution of disputes of a regulatory nature with other operators;

*employee benefits expenses* are analyzed as follows:

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(millions of euro)	2008	2007	Change
Ordinary employee costs and expenses	3,351	3,412	(61)
Expenses for mobility agreements under Law 223/91	287		287
Profit bonuses accrued in 2006 and no longer due following agreements with the unions in June 2007		(79)	79
Actuarial recalculation of the provision for employee severance indemnity (according to the law on supplementary pension benefits)		(51)	51
<b>Total employee benefits expenses</b>	<b>3,638</b>	<b>3,282</b>	<b>356</b>

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Excluding, in 2008, the expenses connected with mobility agreements under Law 223/91 and, in the prior year, the benefits associated with the profit bonus and the actuarial recalculation of employee severance indemnity, employee benefits expenses decreased by 61 million of euro. The reduction is due to the decrease in the average headcount which is partly offset by higher costs connected with minimum salary contract increases;

*other operating expenses* amount to 725 million of euro (1,338 million of euro in 2007). The change is mainly due to lower writedowns and expenses connected with credit management (-251 million of euro) and lower accruals to provisions (-248 million of euro) associated with the costs for disputes of a regulatory nature with other operators which arose in the last few months of 2007. The accruals in connection with credit management set aside in 2008 take in account the assessment of credit risks with consumer and business customers arising from recent changes in the macroeconomic picture and also measures to recover receivables put into place in the fixed-line area.

In 2007, accruals were made in respect of unfavorable developments relating to disputes of a regulatory nature with other fixed-line and mobile telephony operators and also in connection with the management of past due receivables from mobile customers with postpaid contracts and doubtful receivables resulting from contracts terminated with fixed-line customers; higher expenses for credit management were also recorded following settlements reached with other operators.

**EBIT**

EBIT amounts to 5,444 million of euro and is 307 million of euro (-5.3%) lower than in 2007. The EBIT margin is 23.4% (23.7% in the prior year).

EBIT performance was hurt, apart from the factors commented under EBITDA, by higher depreciation and amortization charges (+171 million of euro), of which 81 million of euro refers to the amortization of intangible assets and 90 million of euro to the depreciation of tangible assets. That negative effect was partly offset by the increase in the net balance of gains (losses) on disposals of non-current assets (+15 million of euro).

The organic change in EBIT is a negative 604 million of euro (-9.5% compared to 2007). The EBIT margin is 24.7% (26.2% in the prior year). Details are as follows:

(millions of euro)	2008	2007	Change
<b>HISTORICAL EBIT</b>	<b>5,444</b>	<b>5,751</b>	<b>(307)</b>
Effect of change in scope of consolidation		11	
Effect of change in exchange rates		(2)	
Non-organic expenses already described under EBITDA	323	600	
Non-recurring gains on sale of properties	(25)	(10)	
Other income, net		(4)	
<b>COMPARABLE EBIT</b>	<b>5,742</b>	<b>6,346</b>	<b>(604)</b>

**Capital expenditures**

Capital expenditure total 3,658 million of euro (-406 million of euro compared to 2007). The percentage of capital expenditures to revenues is equal to 15.7% (16.8% in 2007).

Capital expenditures for **fixed-line telecommunications** totalling 2,500 million of euro (-220 million of euro compared to 2007) are principally earmarked for broadband development and new services (overall about 41% of total fixed-line investments) and the upgrading of the network and information systems (about 40%). The remaining expenditures are directed to the consolidation of traditional services and meeting regulatory provisions and the law.

As for broadband development and new services, the most important commitment continues to be ADSL Alice, with access speeds up to 20 Mbps, linked also to the IP-TV service offering. Capital expenditures also include work to develop the new access platform in fiber optics (Next

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Generation Network 2 or NGN2) to provide very high speed services. Telecom Italia's network is already able to serve a potential pool of about 7 million customers with IPTV services.

Other capital expenditures are allocated to telephone and data networks and operating and support systems for commercial activities. These include the Next Data Center Generation project geared to optimizing the Data Center server structure and support Information Technology packages aimed at companies.

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Capital expenditures for **mobile telecommunications** amount to 989 million of euro (- 150 million of euro compared to 2007). About 32% is for handset packages, using contracts that are usually for two years, aimed at increasing customer loyalty. Along with traditional cell phones and the more sophisticated palm handheld devices, more plans are increasingly being offered with devices boosting the use of the Internet via the mobile network (from simple USB port keys to portable computers).

The development of the UMTS and HSDPA third-generation network (about 20% of mobile capital expenditures including the core network) is aimed at increasing coverage for high-speed Internet (up to 7 Mbps) and transmission of multimedia content.

Actions taken to extend the range of services offered to customers are also important (MTV mobile plans addressed to the youth market, Family solutions, Home Zone and Milleuna TIM etc.) and entailed capital expenditures for about 14% of total mobile investments.

The remaining amount of capital expenditures is being allocated to the network platform (about 11%) primarily to upgrade software in exchange centers, the development of information systems (about 17%) to support the acquisition, caring and after-sales phases and the traditional GSM services platform (about 6%).

## **Headcount**

Headcount is 61,816, with a reduction of 2,546 compared to December 31, 2007, and includes 638 people with temp work contracts (1,278 at December 31, 2007).

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## **Key factors**

### **Innovation and products**

#### **Fixed-line Telecommunications**

As already described in the comment on revenues from the Internet area, the development strategy continues for Retail Broadband, the gradual penetration of VoIP thanks to the successful introduction of the new Alice Casa rate plans, as well as the expansion of the IPTV service on the Consumer market and the development of Internet content and services.

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

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

#### **Mobile Telecommunications**

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

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

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to increase penetration of the young target by consolidating the Tribù concept and the release in July 2008 of the new Mobile MTV service, a second brand resulting from the synergy between TIM and MTV which exploits the attraction potential of the two brands with regard to young people;

to maintain the market share and regain profitability in the mass-market target, objectives which were achieved by rationalizing the portfolio (ending the marketing of old rate profiles followed by repricing: changes in April 2008 to the recharging conditions on each call received and an increase in August 2008 of the nominal rates by euro 3 cents on some of the old rate plans) and by creating a portfolio of simpler phone rate plans (such as the introduction in August 2008 of TIM's range of Chiara profiles);

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

## **Commercial Developments**

The main commercial developments are as follows:

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

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

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

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

## **Main changes to the regulatory framework and price trend**

Main regulatory events occurred in 2008 that may have an economic relevance for Telecom Italia.

## **Market analysis**

During 2008 AGCom opened various proceedings to carry out the second round of relevant markets analysis (except broadcasting transmission services market) to determine whether to maintain, amend or withdraw the obligations in force. These proceedings should be closed within the year 2009.

## **Telecom Italia's Undertakings**

On 11<sup>th</sup> December 2008, with Decision 718/08/CONS, AGCom finally approved Telecom Italia's undertakings proposal. The undertakings are aimed to strengthen equality of treatment's conditions intended for alternative operators and to promote greater competition in the fixed network markets. Following the undertakings' approval, seven sanctions proceedings imposed on Telecom Italia were suspended and should be closed when the actual fulfillment of the undertakings be assessed.

## **Retail fixed markets**

Fixed line subscription fee did not vary during 2008, since the *price cap* mechanisms expired in 2007. In December 2008 AGCom authorized Telecom Italia to increase the residential monthly rental fee starting from 1<sup>st</sup> February 2009 (from 12.14 to 13.40 euro).

As for local, national and fixed-to-mobile calls tariffs (only for retention) and the leased lines, for the years 2008 and 2009 the price cap mechanisms remain in force [RPI (Retail Price Index) - RPI for fixed-to-fixed, RPI-6% for fixed-to-mobile retention, RPI-7% for the leased lines].



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**Table of Contents****Wholesale fixed markets**

As for Telecom Italia's wholesale tariffs for call origination, termination and transit services on the fixed telephone network, for the years 2008 and 2009 the network cap mechanism (RPI-9.9%) remains in force.

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

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

(\*) Other notified operators under Decision no. 417/06/CONS

In October 2008 AGCom approved the 2008 LLU Reference Offer where the services' tariffs were determined according to the cost orientation principle. The offer lowers the price of the LLU rental fee from 7.81 Euro/month in 2007 to 7.64 Euro/month.

In December 2008 AGCom launched a public consultation for the approval of the 2009 LLU offer where it proposes to increase the LLU wire rental fee to 8.55 Euro/month starting from 1<sup>st</sup> March 2009.

On 1<sup>st</sup> February 2008 Telecom Italia published the 2008 Reference Offer for bitstream services and the 11<sup>th</sup> March 2008 AGCom opened the assessment procedure of the Reference Offer for the year 2008, which has not been closed as yet.

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

**Mobile market**

At the end of 2007, with Decision 628/07/CONS, AGCom approved the reduction of H3G's terminating rate from 18.76 Eurocent/min. to 16.26 Eurocent/min. starting from 1<sup>st</sup> March 2008. Following Telecom Italia's appeal, partially received by the Lazio Administrative Court (TAR) at the end of January 2009, the price reduction is in force starting from 1<sup>st</sup> January 2008.

Starting from 1<sup>st</sup> July 2008 there has been a reduction on Telecom Italia, Vodafone and Wind's termination rates according to the 2006-2008 glide path set with Decision 3/06/CONS of January 2006. In August 2008, with Decision 446/08/CONS, AGCom further reduced H3G termination rate to 13 Eurocent/min. starting from 1<sup>st</sup> November 2008.

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

**Summarising table of the 2008-2012 mobile termination rate variations**

<i>Euro cent/minute</i>	<b>From 1/1/2008</b>	<b>From 7/1/2008</b>	<b>From 11/1/2008</b>	<b>From 7/1/2009</b>	<b>From 7/1/2010</b>	<b>From 7/1/2011</b>	<b>From 7/1/2012</b>
H3G	16.26	16.26	13.00	11.0	9.0	6.3	4.5
Telecom Italia	9.97	8.85	8.85	7.7	6.6	5.3	4.5

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Vodafone	9.97	8.85	8.85	7.7	6.6	5.3	4.5
Wind	11.09	9.51	9.51	8.7	7.2	5.3	4.5

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During 2008, international roaming tariffs have been reduced in compliance with the EC Regulation no. 717/2007 which set maximum values, at wholesale and retail level (sc. Euro-tariff) for the calls originated and terminated within the EEA, according to the following glide path:

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

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

**Wi-Max Licences**

Following the auction to grant Wi-Max licences (technology that allows the broadband delivery over radio frequencies) closed in February 2008, Telecom Italia won a block of frequencies in the Umbria, Lazio, Abruzzi, Molise, Campania, Puglia, Basilicata, Calabria and Sardinia regions. The auction, launched on 13<sup>th</sup> February 2008 at a starting price of 45 million of euro, after nine bid rounds closed at 140 million of euro, more than the German (60 million of euro) and the French ones (100 million of euro). The auction total value for Telecom Italia is equal to approximately 14 million of euro.

**Competitive scenario****Fixed-line Telecommunications**

At December 31, 2008, the number of fixed lines in Italy reached approximately 22.6 million. The competition between the various operators in the fixed-line telecommunications market focuses on the innovation of the offering through the introduction of voice/broadband packages (double play) and voice/broadband/IPTV packages (triple play). The evolution of the offering has been made possible by a shift, on the part of the competitors, from a mainly reselling approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an approach based on control of the infrastructures (Local Loop Unbundling - LLU - and Wholesale Line Rentals). Apart from Telecom Italia, the competitive scenario of the Italian market is dominated by various operators with different business models which focus on different market segments:

Wind-Infostrada (an integrated fixed-line/mobile/Internet operator which specializes in retail voice customers with medium/low-cost 2Play rate plans);

Fastweb (a national operator that focuses on high-value broadband and triple play service plans for the retail and corporate clientele), acquired from Swisscom;

BT Italia (which focuses on the business clientele and ICT rate plans: voice, data and IT solutions);

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

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

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

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

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

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**Mobile Telecommunications**

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

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

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**Table of Contents****Brazil****The structure of the Business Unit**

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

**Main operating and financial data**

Key results by the Brazil Business Unit in 2008 compared to 2007 are presented in the following table.

	(millions of euro)		(millions of BRL)		amount (c-d)	Change	
	2008 (a)	2007 (b)	2008 (c)	2007 (d)		(c-d)/d %	% organic
Revenues	5,208	4,990	13,951	13,293	658	4.9	4.9
EBITDA	1,217	1,207	3,259	3,214	45	1.4	1.4
<i>% of Revenues</i>	<i>23.4</i>	<i>24.2</i>	<i>23.4</i>	<i>24.2</i>			
EBIT	189	150	507	399	108	27.1	27.1
<i>% of Revenues</i>	<i>3.6</i>	<i>3.0</i>	<i>3.6</i>	<i>3.0</i>			
Capital expenditures	1,348	865	3,612	2,305	1,307	56.7	
Headcount at year-end (number)	10,285	10,030	10,285	10,030	255	2.5	

**Revenues**

Revenues total BRL 13,951 million and grew by BRL 658 million (+4.9%) compared to 2007, recording an increase in revenues from services of 6.1%, within which VAS revenues rose by 31%. The growth of the customer base, together with steady competitive pressure that featured promotions, especially Internet traffic packages, gradually diluted average monthly revenues per user, which, nevertheless, is still the highest in the Brazilian market.

**EBITDA**

EBITDA amounts to BRL 3,259 million, with an increase of BRL 45 million over 2007 (+1.4%); the EBITDA margin is 23.4%, 0.8 percentage points lower than in 2007.

This result was achieved by pursuing a strict cost control policy as competition in the Brazilian market created an erosion in prices and per unit service margins.

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

*acquisition of goods and services*, totaling BRL 8,107 million, increased by 8.3% compared to 2007 (BRL 7,487 million), mainly as a result of higher interconnection costs, due to the rise in traffic generated, and other selling costs;

*employee benefits expenses*, amounting to BRL 626 million, rose by BRL 31 million (+5.2%) from 2007 owing to an increase in the headcount where the average number went from 8,847 in 2007 to 9,240 in 2008. The percentage of employee benefit expenses is 4.5% like last year;

*other operating expenses* stand at BRL 2,381 million (BRL 2,185 million in 2007) and include taxes on revenues, indirect taxes and telecommunications operating fees (BRL 1,496 million in 2008 compared to BRL 1,387 million in 2007),

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writedowns and losses on receivables (BRL 749 million in 2008 compared to BRL 715 million in the prior year), mainly regarding the Televendita sales channel, and other accruals and sundry items (BRL 136 million in 2008 compared to BRL 83 million in 2007).

### **EBIT**

EBIT amounts to BRL 507 million, with an increase of BRL 108 million compared to 2007 (+27.1%). This result is due to a higher EBITDA and lower depreciation charges since the TDMA network is now completely depreciated.

### **Capital expenditures**

Capital expenditures amount to BRL 3,612 million. This is an increase of BRL 1,307 million over 2007 following the purchase of the 3G licenses (BRL 1,239 million), the growth of the customer base and investments in network infrastructures and third-generation IT.

On April 29, 2008, the contracts relating to the licenses for 3G services were signed. At that time, Tim Brasil paid 10% of the total value of the licenses acquired and paid the remaining 90% in December 2008.

The allotted licenses cost BRL 1,325 million; their present value is BRL 1,239 million and the difference of BRL 86 million is recorded in finance expenses.

### **Headcount**

Headcount is 10,285 at December 31, 2008, an increase of 255 people compared to December 31, 2007 (10,030).

\*\*\*

### **Key factors**

#### **Innovation and products**

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

the launch in September of the fixed-line telephone service called TIM Fixo , available in more than 300 towns in Brazil;

the innovation, with the launch of the first Brazilian notebook connected to high-speed Internet, called the Netbook ;

convergence, through the development of third-generation services (Tim Web Broadband) and integrated plans for fixed-line, mobile and Internet services;

the signing of important commercial agreements with content suppliers;

the launch of new promotional offers to encourage use of its services;

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

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

### **Main changes to the regulatory framework and price trend**

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

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

### **Competitive scenario**

Between the end of December 2007 and the end of December 2008, the Brazilian market of mobile phone lines reported an increase of 29.7 million new lines (+24.5%), reaching 150.6 million lines at December 31, 2008 (with 78.0% penetration of the population), compared to 120,9 million lines at December 31, 2007 (with 63.5% of penetration of the population).

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

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### **The Business Units of the Telecom Italia Group - Brazil**

**Table of Contents****European BroadBand****The Business Unit**

The Business Unit offers Broadband access and services in metropolitan areas in Germany and the Netherlands through the HanseNet Telekommunikation GmbH and BBNet N.V.

**The structure of the Business Unit**

The structure of the Business Unit reported below is different from the one presented in the 2007 Annual Report; in fact, the Broadband activities in France (Liberty Surf group) are no longer in the Business Unit since Liberty Surf group is treated as a discontinued operation for accounting purposes, starting from 2008, after steps were taken for its disposal to Iliad S.A.. The sale was finalized on August 26, 2008.

**Main operating and financial data**

Key results by the Broadband Business Unit and by country in 2008 compared to 2007 are presented in the following tables:

(millions of euro)	2008	2007	amount	Change	
				%	% organic
Revenues	1,274	1,151	123	10.7	4.5
EBITDA	245	297	(52)	(17.5)	(19.4)
% of Revenues	19.2	25.8			
EBIT	(30)	122	(152)	°	°
% of Revenues	(2.4)	10.6			
Capital expenditures	352	358	(6)	(1.7)	
Headcount at year-end (number)	2,912	3,191	(279)	(8.7)	
<b>GERMANY (HANSENET + TI DEUTSCHLAND)</b>					

(millions of euro)	2008	2007	amount	Change	
				%	% organic
Revenues	1,190	1,074	116	10.8	
EBITDA	238	281	(43)	(15.3)	
% of Revenues	20.0	26.2			
EBIT	(13)	126	(139)	°	
% of Revenues	(1.1)	11.7			
Capital expenditures	327	344	(17)	(4.9)	

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**The Business Units of the Telecom Italia Group - European BroadBand**

**Table of Contents****THE NETHERLANDS (BBNED)**

(millions of euro)	2008	2007	Change amount	%
Revenues	84	77	7	9.1
EBITDA	7	16	(9)	(56.3)
<i>% of Revenues</i>	8.3	20.8		
EBIT	(17)	(4)	(13)	°
<i>% of Revenues</i>	(20.2)	(5.2)		
Capital expenditures	25	14	11	78.6
<b>Revenues</b>				

Revenues amount to 1,274 million of euro and record an increase of 123 million of euro (+10.7%) compared to 2007; organic growth, on a comparable consolidation basis due to inclusion of the AOL internet businesses in Germany, is 55 million of euro, +4.5%. The Broadband customer portfolio at December 31, 2008 is at more than 2.5 million accesses, a figure that is aligned with the prior year. The Narrowband portfolio, at the end of December 2008, is at 0.5 million accesses compared to 0.7 million at year-end of 2007.

In greater detail, revenues from business operations conducted in Germany total 1,190 million of euro and show an increase of 10.8% compared to 2007 (+ 116 million of euro); organic growth is 4.1%. The Broadband customer portfolio in Germany is 2.3 million at December 31, 2008, a number that is stable compared to December 31, 2007.

The Netherlands contributed 84 million of euro to revenues, with performance that is 7 million of euro higher than in the prior year, +9.1%. The customer portfolio of about 166,000 is about 22,000 lower than in December 2007 owing to the loss of lines in ADSL Wholesale (-38,000), Fiber and Voice Wholesale (-24,000), which is offset by the growth of ADSL connections in the Retail area (+40,000).

**EBITDA**

EBITDA amounts to 245 million of euro and recorded a reduction of 52 million of euro (-17.5%) compared to 2007. The EBIT margin is 19.2% against 25.8% in the prior year.

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

*acquisition of goods and services*, totaling 886 million of euro, increased by 19.4% compared to 2007 (+144 million of euro) mainly as a consequence of the growth of the business (particularly interconnection costs with other operators and those associated with the acquisition of new customers) and in part to the change in the scope of consolidation due to the acquisition of the AOL internet businesses in Germany in March 2007;

*employee benefits expenses* amount to 130 million of euro and increased by 4 million of euro compared to 2007 (+3.2%);

*other operating expenses* of 59 million of euro rose by 31 million of euro compared to 2007 mainly as a result of higher charges for accruals to the bad debts provision owing to the need for higher coverage of HanseNet overdue receivables.

The organic change in EBITDA is a reduction of 59 million of euro (-19.4%) compared to 2007. Details are as follows:

(millions of euro)	2008	2007	Change
<b>HISTORICAL EBITDA</b>	<b>245</b>	<b>297</b>	<b>(52)</b>
Effect of change in scope of consolidation		7	

<b>COMPARABLE EBITDA</b>	<b>245</b>	<b>304</b>	<b>(59)</b>
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**The Business Units of the Telecom Italia Group - European BroadBand**

**Table of Contents****EBIT**

EBIT is a negative 30 million of euro; in 2007 it was a positive 122 million of euro. Besides the above decline in EBITDA, the reduction in EBIT is due to the considerable increase in depreciation and amortization charges (+ 79 million of euro) attributable to the significant investments in network infrastructures and information support systems made between the end of 2007 and the beginning of 2008 and also to costs incurred to acquire customers for rate plans that bind the customer to a two-year contract.

The organic change in EBIT is a reduction of 134 million of euro compared to 2007. Details are as follows:

(millions of euro )	2008	2007	Change
<b>HISTORICAL EBIT</b>	<b>(30)</b>	<b>122</b>	<b>(152)</b>
Effect of change in scope of consolidation		3	
Goodwill impairment loss	21		
<b>COMPARABLE EBIT</b>	<b>(9)</b>	<b>125</b>	<b>(134)</b>

The impairment loss on goodwill refers to the acquisition of the AOL internet businesses in Germany last year. This impairment loss was recognized following the tax benefits recorded in 2008 by the subsidiary HanseNet that had not been accounted for at the date of acquisition, for an equivalent amount.

**Capital expenditures**

*Capital expenditures* amount to 352 million of euro, down by 6 million of euro compared to 2007.

**Headcount**

*Headcount* is 2,912 at December 31, 2008, with a reduction of 279 compared to December 31, 2007, and includes 354 people with temp work contracts (609 at December 31, 2007).

\*\*\*

**Key factors****Innovation and products****GERMANY**

During the year 2008, the German subsidiary focused particularly on the following strategic lines:

**innovation of the rate plans:**

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

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

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

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

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

**improvement in the quality of service**, by reducing activation times, strengthening the VoIP service and re-defining Customer Care processes with a positive impact on customer retention;

**consolidation of the Alice brand and raising Brand Awareness**, with the launch of various communication strategies (in particular, in 2008, a new advertising campaign was launched with a testimonial from Brad Pitt);

**extension of network coverage**, especially through our partners Telefonica and QSC (1,815 unbundling sites at the end of December, whereas the number of unbundling sites of the proprietary network remains stable at 897);

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**The Business Units of the Telecom Italia Group - European BroadBand**

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**development of Group synergies** for the wholesale offering and the Multinational Corporate clientele.

### **THE NETHERLANDS**

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

**growth in the Consumer Broadband segment with the Alice brand**, supported by an enhancement of the available rate plans (Alice Easy - single play which joins the Alice Comfort dual play bundle) and the launch of the fiber offering in Amsterdam, with the addition of the TV option;

**operational efficiency**, through the consolidation of Provisioning and Customer Care processes and optimization of sales channels;

**promotion of the Alice brand and raising Brand Awareness**, through advertising campaigns in various media channels.

### **Main changes to the regulatory framework and price trend**

#### **GERMANY**

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

With reference to the new ultra-broadband VDSL DTAG network, the Authority did not require the incumbent to provide the service to the alternative operators, but merely to share the main network infrastructures (ducts and street cabinets). During 2009 a commercial wholesale offer by DTAG is foreseen, extending VDSL service to alternative operators.

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

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

#### **THE NETHERLANDS**

During the last months of 2008 the Dutch Regulatory Authority OPTA published its indications on the development of the fibre access market and proposed the innovative vision of opening the incumbent's ultra-broadband network to the alternative operators.

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

The ultra-broadband network regulation, aimed at supporting the network infrastructure competition at local level, is expected to deeply influence the telecommunication sector in the near future. As regards to pricing dynamics, during the second half of 2008 prices remained stable in nominal terms following a substantial reduction occurred in the first months of the year. In general, the main competitors developed their pricing strategies by means of promotional offers.

#### **Competitive scenario**

#### **GERMANY**



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Germany, which had reached more than 23 million Broadband connections by the end of 2008, is Europe's major market for Broadband services. It has a level of penetration (59%) that is still below the European average (62% at year-end 2008) and continues to hold interesting growth prospects.

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The Broadband market is concentrated on 4-5 main players and it is obvious that there is still space for further consolidation, both in the DSL market and in the market of cable-TV operators.

During the year, competition featured strong price pressure as a result of the launch of promotional rate plans and the strengthening of the incumbent's return strategy. There was a significant increase in the number of cable operators thanks to fact that networks were technologically upgraded and as the result of a very competitive pricing policy on *triple play* rate plans.

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

## **THE NETHERLANDS**

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

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

KPN's new technological plan, supported by the joint venture with Reggefiber (the only other provider of fiber access), involves the development of fiber networks using *FTTHome* and *FTTCurb* technology and should have a strong competitive impact on the market of high-end broadband accesses. Moreover, the closure of local switchboards, announced previously by KPN following the development of the fiber plan, will not begin before 2011.

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**The Business Units of the Telecom Italia Group - European BroadBand**

**Table of Contents****Media****The Business Unit**

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

the **Television** Business Area focuses on the production and broadcasting of editorial content through analog and digital networks. It also operates as both an analog and digital television broadcaster. Its Business Model is based upon the following activities:

*Free to Air*, which includes the two analog TV channels La7 and MTV;

*Multimedia*, which takes on the role of Content Competence Center of the Telecom Italia Group in designing and producing content offerings;

*Digital Terrestrial*, which offers new content and the lease of digital bandwidth to third parties.

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

**The structure of the Business Unit**

The Business Unit is organized as follows:

**Main operating and financial data**

Key results by the Media Business Unit in 2008 compared to 2007 are presented in the following table:

(millions of euro)	2008	2007	amount	Change	
				%	% organic
Revenues	287	263	24	9.1	12.5
EBITDA	(59)	(55)	(4)	(7.3)	(7.3)
<i>% of Revenues</i>	<i>(20.6)</i>	<i>(20.9)</i>			
EBIT	(113)	(117)	4	3.4	(4.3)
<i>% of Revenues</i>	<i>(39.4)</i>	<i>(44.5)</i>			
Capital expenditures	50	69	(19)	(27.5)	
Headcount at year-end (number)	967	1,016	(49)	(4.8)	

On December 1, 2008, Telecom Italia Media S.p.A. sold the Pay-per-View business segment realizing a consolidated gain, net of transaction costs, of 9 million of euro, with a reduction in net financial debt of 16 million of euro.

The main operating data of the segment sold is as follows:

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(millions of euro)	1/1	11/30	Change	
	2008	2007	amount	%
Revenues	71	57	14	24.6
EBITDA	(16)	(12)	(4)	(33.3)
<i>% of Revenues</i>	<i>(22.5)</i>	<i>(21.1)</i>		
EBIT	(18)	(13)	(5)	(38.5)
<i>% of Revenues</i>	<i>(25.4)</i>	<i>(22.8)</i>		

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**The Business Units of the Telecom Italia Group - Media**

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Restated data for 2008 and 2007 are reported below and completely exclude the results of the segment sold.

(millions of euro)	2008	2007	Change		
	restated	restated	amount	%	% organic
Revenues	224	215	9	4.2	4.2
EBITDA	(43)	(44)	1	2.3	2.3
% of Revenues	(19.2)	(20.5)			
EBIT	(104)	(104)			
% of Revenues	(46.4)	(48.4)			
Capital expenditures	49	67	(18)	(26.9)	
Headcount at year-end (number)	967	992	(25)	(2.5)	

**Revenues**

Revenues amount to 224 million of euro, with an increase of 4.2% compared to 215 million of euro in 2007.

In greater detail:

revenues from the Free to Air analog business area amount to 154 million of euro, down 6 million of euro (-3.9%) compared to 2007. Lower revenues from advertising sales (-13 million of euro: La7 for -5 million of euro and MTV for -8 million of euro) were partly compensated by the increase in the production of content and events sold to third parties (+7 million of euro);

revenues from Multimedia operations amount to 44 million of euro and grew by 40.3% (+ 13 million of euro) compared to 2007 (31 million of euro). This change was driven by the increase in the contribution by the Content Competence Center operations for Telecom Italia (+5 million of euro), the launch of MTV Mobile in 2008 (+ 7 million of euro) and higher revenues from the broadcasting of five Satellite Channels on Sky (compared to three in 2007);

revenues from Digital Terrestrial operations total 17 million of euro, compared to 14 million of euro in 2007 (+16.9%). Higher sales from the lease of digital band by the Network Operator contributed to this performance.

revenues from the News business area stand at 10 million of euro, up 1.0% over 2007.

**EBITDA**

EBITDA amounts to -43 million of euro, compared to -44 million of euro in 2007 and recorded a positive change of 1 million of euro (+2.3%).

EBITDA of Free to Air activities is a negative 40 million of euro. This is 9 million of euro higher than the negative EBITDA in 2007 (-31 million of euro). La7 Free to Air operations contributed to that change with a negative 4 million of euro. The previously described contraction in advertising revenues was more than offset (1 million of euro) by decisive action taken to cut operating costs. However, expenses for organizational restructuring costs had an impact on EBITDA of 6 million of euro, including the costs to reach a settlement on the dispute with La7 journalists which will have considerable positive repercussions in the next two years. The change in the contribution to EBITDA by MTV compared to 2007 (-5 million of euro) is almost entirely due to the decline in advertising sales, which was only partly compensated by a reduction in costs and includes 1 million of euro of organizational restructuring expenses.

Besides the aforementioned increase in sales, Digital Terrestrial operations report an improvement in EBITDA of 3 million of euro compared to 2007, also due to a reduction in costs thanks to a more efficient management of operations (1 million of euro).

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**The Business Units of the Telecom Italia Group - Media**

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The Multimedia sector bettered its EBITDA by 7 million of euro over the prior year, from 11 million of euro in 2007 to 18 million of euro in 2008.

The News business area posts a negative EBITDA of 7 million of euro in 2008 compared to a negative 6 million of euro in 2007. The change of 1 million of euro is entirely due to organizational restructuring expenses.

## **EBIT**

EBIT amounts to a negative -104 million of euro as in 2007. The change is due not only to the improvement in EBITDA of 1.0 million of euro, as described above, but also to higher amortization charges of La7 and MTV Italy television rights (+4 million of euro) offset by lower depreciation charges as a result of extending the useful life of Digital Terrestrial infrastructures (-3 million of euro) following amendments to the law in the second half of 2008<sup>(1)</sup>.

## **Capital expenditures**

Capital expenditures amount to 49 million of euro (67 million of euro in 2007). They mainly refer to investments in the Television area and include the acquisition of infrastructures for the development of the Digital Terrestrial network (10 million of euro) and the acquisition of television rights extending beyond one year (27 million of euro). In 2007, capital expenditures included 17 million of euro for the acquisition of frequencies in the Sicily region.

## **Headcount**

Headcount is 967 at December 31, 2008, with a reduction of 25 compared to December 31, 2007 and includes 78 people with term work contracts (70 at December 31, 2007).

## **Key factors**

### **Commercial agreements**

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

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

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

By concluding this partnership agreement, Telecom Italia Media has achieved one of the most important aims of the Industrial Plan approved in September 2008.

### **Main changes to the regulatory framework**

#### **Italian Law on Broadcasting**

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

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

<sup>(1)</sup> On August 4, 2008, an amendment to the law extended the useful life of digital frequencies from June 30, 2018 to December 31, 2028.

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**The Business Units of the Telecom Italia Group - Media**



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**Disposal of 40% of digital MUX broadcasting capacity**

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

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

Telecom Italia Media Broadcasting's networks will host Air Plus, Jetix and QVC. Local broadcasters seem to have backed off.

**Events subsequent to December 31, 2008**

The following events took place:

on February 26, 2009, after interest was expressed by other parties, the Telecom Italia Media board of directors confirmed its intention of holding an auction to sell the digital assets of its Network Operator and named the investment bank Merrill Lynch as the financial advisor of this process;

on February 26, 2009, as part of the steps aimed at regaining profitability announced with the Industrial Plan, the Telecom Italia Media board of directors is evaluating the possibility of allowing a partner to acquire a majority stake in TM News, owner of the APCOM news agency.

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**The Business Units of the Telecom Italia Group - Media**

**Table of Contents****Olivetti****The Business Unit**

The Olivetti group operates in the sectors of digital printing systems and ink-jet office products. It also develops and manufactures products using silicon technology (ink-jet print heads and Micro Electro-Mechanical Systems - MEMS) and offers specialized applications for the banking field and commerce and information systems for managing forecast games and lotteries, electronic voting and e-government. The market of the Business Unit is focused mainly in Europe and Asia.

**The structure of the Business Unit**

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

**Main operating and financial data**

Key results by the Olivetti Business Unit in 2008 compared to 2007 are presented in the following table:

(millions of euro)	2008	2007	amount	Change %	% organic
Revenues	352	408	(56)	(13.7)	(10.2)
EBITDA	(30)	(44)	14	31.8	34.2
% of Revenues	(8.5)	(10.8)			
EBIT	(37)	(66)	29	43.9	38.5
% of Revenues	(10.5)	(16.2)			
Capital expenditures	3	8	(5)	(62.5)	
Headcount at year-end (number)	1,194	1,279	(85)	(6.6)	

**Revenues**

Revenues amount to 352 million of euro in 2008 and record a decrease of 56 million of euro compared to 2007. Excluding the change in the scope of consolidation and exchange differences due to the translation of financial statements in currencies other than the euro, the organic change in revenues is a negative 40 million of euro (-10.2%). In addition, considering the exchange effect of sales in U.S. dollars with extra-EU customers, the weakening of the U.S. dollar against the euro had an adverse effect on revenues of another 3 million of euro.

In 2008, there was a significant reduction in the sales of faxes using ink-jet technology and relative accessories, as a direct consequence of the installation of fewer faxes. Following the decision to suspend the development and manufacture of multifunctional ink-jet products, sales decreased considerably, despite the supply contract with an important foreign customer which sustained sales in the first six months of the year. Printers for banking teller applications, although hurt by a reduction in prices due to the weakness of the U.S. dollar against the euro, basically still held firm in terms of volumes.

The improvement in the results reached in the Italian market is due to the supply of 11,000 counter printers to Poste Italiane S.p.A. and the growing importance of the volumes of fiscal cash registers.

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Professional products for the office, copiers and relative accessories show a heavy reduction compared to 2007 in the black and white copy segment, in quantity (-22%) and in average prices (-10% on the medium/high range models), which were only partly offset by higher volumes in the color laser copier segment (+10% in quantity).

During the last part of the year, an important project was begun in collaboration with Telecom Italia for the supply of terminals specialized for payments and services at tobacconist's shops in Italy.

**EBITDA**

EBITDA is a negative 30 million of euro. This is an improvement of 14 million of euro compared to the prior year (a negative 44 million of euro) thanks to a recovery on fixed costs which more than compensated the deterioration due to the drop in sales.

EBITDA was also affected by employee benefits expenses for 5 million of euro in connection with costs linked to the mobility agreement under Law 223/91 signed with the labor unions on December 11, 2008, accruals and expenses for termination benefit incentives owing to a reorganization of foreign holdings and accruals and expenses for manager termination benefit incentives.

The organic change in EBITDA is an increase of 13 million of euro (+34.2%). Details are as follows:

(millions of euro)	2008	2007	Change
<b>HISTORICAL EBITDA</b>	<b>(30)</b>	<b>(44)</b>	<b>14</b>
Effect of change in scope of consolidation		(12)	
Non-organic (income) expenses:	5	18	
<i>Industrial reconversion expenses</i>		17	
<i>Expenses for mobility agreement under Law 223/91</i>	5		
<i>Other expenses, net</i>		1	
<b>COMPARABLE EBITDA</b>	<b>(25)</b>	<b>(38)</b>	<b>13</b>

**EBIT**

EBIT is a negative 37 million of euro, an improvement of 29 million of euro compared to 2007 (a negative 66 million of euro).

The organic change in EBIT is a positive 20 million of euro (+38.5%). Details are as follows:

(millions of euro)	2008	2007	Change
<b>HISTORICAL EBIT</b>	<b>(37)</b>	<b>(66)</b>	<b>29</b>
Effect of change in scope of consolidation		(11)	
Non-organic (income) expenses:	5	25	
Non-organic (income) expenses already described under EBITDA	5	18	
Non-organic (income) expenses:		7	
<i>Industrial reconversion expenses</i>		6	
<i>Other expenses, net</i>		1	
<b>COMPARABLE EBIT</b>	<b>(32)</b>	<b>(52)</b>	<b>20</b>

**Capital expenditures**

Capital expenditures amount to 3 million of euro, with a decrease of 5 million of euro compared to 2007.

**Headcount**

Headcount is 1,194 (1,088 in Italy and 106 abroad) at December 31, 2008 compared to 1,279 (1,143 in Italy and 136 abroad) at December 31, 2007

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**The Business Units of the Telecom Italia Group - Olivetti**

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**International 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-line and mobile telecommunications, Internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

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

In Broadband, accesses total approximately 1,032,000, with an increase of more than 34% compared to the end of 2007 (768,000).

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

**ETECSA**

**Held by: Telecom Italia International 27%**

The company operates a monopoly in the sectors of fixed-line and mobile communications, Internet and data transmission in Cuba. At December 31, 2008, the number of land lines in service (also including installed public telephones) is 1,088,100, an 3% increase compared to December 31, 2007 (1,052,800). Of the lines in service, 51,500 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in non-convertible Cuban pesos. With a market that is still of modest proportions, at December 31, 2008, the number of Internet and data customers has reached 25,800, almost 10% higher than at year-end 2007 (23,500).

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

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**International investments accounted for using the equity method**

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(millions of euro)	2008	2007	amount	Change %	% organic
<b>Revenues</b>	<b>22,025</b>	<b>22,847</b>	(822)	(3.6)	(3.6)
<b>EBITDA</b>	<b>9,577</b>	<b>9,730</b>	(153)	(1.6)	(4.2)
<i>Margin on revenues</i>	43.5	42.6	0.9 pp		
<i>Organic margin on revenues</i>	44.9	45.2	(0.3) pp		
<b>EBIT</b>	<b>5,166</b>	<b>5,435</b>	(269)	(4.9)	(9.5)
<i>Margin on revenues</i>	23.5	23.8	(0.3) pp		
<i>Organic margin on revenues</i>	24.8	26.4	(1.6) pp		
<b>Profit before tax</b>	<b>2,174</b>	<b>3,526</b>	(1,352)	(38.3)	
<b>Profit for the year</b>	<b>1,500</b>	<b>1,882</b>	(382)	(20.3)	
<b>Capital expenditures</b>	<b>3,471</b>	<b>3,948</b>	(477)	(12.1)	
<b>Net financial debt</b>	<b>39,916</b>	<b>40,142</b>	(226)	(0.6)	
<b>Headcount at year-end (number)</b>	<b>57,285</b>	<b>59,959</b>	(2,674)	(4.5)	

**Operating performance**

The Parent, **Telecom Italia S.p.A.**, reports a profit of 1,500 million of euro in 2008, with a contraction of 382 million of euro compared to 2007. The following chart summarizes the main items which had an impact on the change in profit:

**Revenues**

Revenues amount to 22,025 million of euro and decreased by 822 million of euro (-3.6%) compared to 2007; the organic change in revenues is also equal to -3.6% and is calculated by excluding the reduction of 24 million of euro recorded to take into account the settlement of certain rate disputes with other operators.

The reduction in revenues is the result of an ongoing contraction in traditional service revenues, such as retail voice (-807 million of euro, mainly due to the decrease in traffic and access revenues) and traditional data transmission services supplied to companies (-67 million of euro). However, there was a positive change in revenues from innovative business such as Broadband (+173 million of euro), interactive VAS from the Mobile business (+263 million of euro) and ICT services (+117 million of euro).

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**Review of financial and operating performance - Telecom Italia S.p.A.**

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Revenues were also adversely affected by the market scenario which, especially in 2007, featured regulatory and contractual changes such as the Bersani Decree relating to top-up costs for mobile phones, the reduction in termination rates, the reduction in international roaming traffic rates within the EU and the change in prices for regulated bitstream wholesale services, unbundling and shared access, and resulted in a total negative impact of about 670 million of euro in 2008.

**EBITDA**

EBITDA is 9,577 million of euro and decreased by 153 million of euro (-1.6%) from 2007. The organic change in EBITDA is a negative 4.2% (-434 million of euro). The EBITDA margin is 43.5% (42.6% in 2007); at the organic level, the EBITDA margin is 44.9% in 2008 (45.2% in 2007). Non-organic income and expenses excluded from the calculation of organic EBITDA are detailed as follows:

(millions of euro)	2008	2007	Change
Expenses for mobility agreements under Law 223/91	283		283
Disputes and settlements with other operators	33	448	(415)
Termination price adjustment (fixed-fixed)		92	(92)
Other expenses, net	3	40	(37)
Antitrust fine		20	(20)
<b>Total non-organic (income) expenses</b>	<b>319</b>	<b>600</b>	<b>(281)</b>

More specifically, besides the negative effects described under the comments on revenues, the following line items analyzed below affected EBITDA performance in 2008:

**Acquisition of goods and services**

Acquisition of goods and services amounts to 9,004 million of euro, with a reduction of 467 million of euro (-4.9%) compared to 2007 (9,471 million of euro). The reduction is largely the result of a contraction in the costs for the portion of revenues to be paid to other operators following the reduction in fixed-mobile voice call termination rates on the networks of other operators in addition to the decrease in commercial, advertising and promotional expenses, in part offset by increases in costs for the purchase of materials, power, maintenance and outsourced services. Details are as follows:

(millions of euro)	2008	2007	Change
Purchase of raw materials and merchandise	2,013	1,907	106
Portion of revenues to paid to other operators and interconnection costs	2,832	3,329	(497)
Commercial and advertising and promotion costs	1,292	1,433	(141)
Professional consulting services	230	254	(24)
Power, maintenance and outsourced services	1,011	901	110
Rent and leases	860	805	55
Other	766	842	(76)
<b>Total acquisition of goods and services</b>	<b>9,004</b>	<b>9,471</b>	<b>(467)</b>

The percentage of acquisition of goods and services to revenues is 40.9% (41.5% in 2007).

**Table of Contents****Employee benefits expenses**

Details are as follows:

(millions of euro)	2008	2007	Change
Ordinary employee costs and expenses	3,165	3,241	(76)
Expenses for mobility agreements under Law 223/91	283		283
Profit bonuses accrued in 2006 and no longer due following agreements with the unions in June 2007		(78)	78
Actuarial recalculation of the provision for employee severance indemnity (according to the law on supplementary pension benefits)		(51)	51
<b>Total employee benefits expenses</b>	<b>3,448</b>	<b>3,112</b>	<b>336</b>

The decrease in ordinary employee costs and expenses is due to lower expenses for termination benefit incentives (-89 million of euro) and lower costs arising from a reduction in the average number of the salaried workforce (-1,828 compared to 2007) countered by the continuing increase in costs due to the effect of the October 2007 and June 2008 increases in the minimum salary contract terms established by the July 31, 2007 TLC collective national labor contract, for the two economic years 2007 and 2008

The expenses for mobility are the result of the application of the mobility agreements under Law 223/91 signed with the labor unions on September 19, 2008.

In 2008, the average number of the salaried workforce, including those with temp work contracts, is 57,383 (59,211 in 2007).

Headcount at December 31, 2008, including employees with temp work contracts, is 57,285, with a reduction of 2,674 compared to December 31, 2007, corresponding to more than 50% of the target in the efficiency plan presented by the Executive Committee on June 4, 2008.

**Other operating expenses**

Details are as follows:

(millions of euro)	2008	2007	Change
Writedowns and expenses in connection with credit management	398	605	(207)
Accruals to provisions	34	277	(243)
Telecommunications operating fees and charges	49	51	(2)
Indirect duties and taxes	95	108	(13)
Penalties, compensation and administrative sanctions	64	60	4
Association dues and fees, donations, scholarships and traineeships	24	22	2
Sundry expenses	24	137	(113)
<b>Total</b>	<b>688</b>	<b>1,260</b>	<b>(572)</b>

Other operating expenses total 688 million of euro and decreased by 572 million of euro compared to 2007. The reduction is primarily due to lower charges for accruals to provisions (-243 million of euro) and lower writedowns and expenses connected with credit management (-207 million of euro) as a result of a reduction in the accruals to the provision for bad debts and losses owing to settlement agreements. Writedowns recognized in 2008 in connection with credit management take into account the assessment of credit risks on consumer and business customers arising from the recent change in the macroeconomic scenario and the steps taken to recover receivables in the fixed-line communications area.

In 2007, accruals were made to provisions for disputes of a regulatory nature with other fixed-line and mobile operators and in connection with the management of past due receivables from mobile telephone customers with postpaid contracts and for doubtful receivables resulting from the contracts terminated with fixed-line customers. Higher expenses were also recorded in connection with credit management following settlements



reached with other operators.

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**Review of financial and operating performance - Telecom Italia S.p.A.**

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

Depreciation and amortization amounts to 4,426 million of euro (4,259 million of euro in 2007), with an increase of 167 million of euro, of which 81 million of euro refers to the amortization of intangible assets and 86 million of euro to depreciation of tangible assets.

The increase in amortization is mainly due to the portion of SAC costs capitalized (Subscriber Acquisition Costs) for mobile rate plans under two-year contracts with the customer. The increase in depreciation is largely attributable to the shift in the capital expenditure mix to assets with a shorter life and also the full effect in 2008 of the depreciation charge on tangible assets capitalized in 2007.

The higher charges for depreciation and amortization are countered by an increase of 26 million of euro in gains realized on disposals of non-current assets, relating mainly to the sale of properties, and lower impairment losses of 26 million of euro on non-current assets.

**EBIT**

EBIT is 5,166 million of euro and decreased by 269 million of euro (-4.9%) compared to 2007. The organic change in EBIT is a negative 9.5% (-575 million of euro). The EBIT margin is 23.5% (23.8% in 2007); at the organic level, the EBIT margin is 24.8% in 2008 (26.4% in 2007).

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

(millions of euro)	2008	2007	Change
Non-organic expenses already described under EBITDA	319	600	(281)
Non-recurring gains on sale of properties	(25)		(25)
<b>Total Non-organic (income) expenses</b>	<b>294</b>	<b>600</b>	<b>(306)</b>

**Other income (expenses) from investments**

Details are as follows:

(millions of euro)	2008	2007	Change
Dividends	129	152	(23)
Other income and gains on disposals of investments	3	149	(146)
Losses on disposals of investments	(480)		(480)
Impairment losses on financial assets	(243)	(65)	(178)
<b>Total</b>	<b>(591)</b>	<b>236</b>	<b>(827)</b>

Specifically:

the year 2007 included, among others, the gains on the sale of Mediobanca shares (109 million of euro) and Capitalia shares (38 million of euro);

dividends mainly refer to Telecom Italia Sparkle (114 million of euro) and Matrix (10 million of euro);

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losses on disposals of investments refer to the sale of Liberty Surf Group S.A.S. to Iliad S.A., finalized in August 2008. The loss was determined on the basis of the investment's carrying amount which took into account the purchase price of 475 million of euro, the writedown of 185 million of euro recognized at the end of 2006 and the share capital increase of 630 million of euro carried out in 2008;

impairment losses are mainly in respect of the writedowns of the investments in Telecom Italia Media for 148 million of euro for the adjustment to market value, Telecom Italia Capital for 50 million of euro and Olivetti for 32 million of euro.

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**Review of financial and operating performance - Telecom Italia S.p.A.**

**Table of Contents****Finance income (expenses)**

Details are as follows:

(millions of euro)	2008	2007	Change
Income on bond buybacks	58		58
Early closing of cash flow derivatives	19	55	(36)
Withholdings at source on interest earned on loan contracts with group companies residing in Europe		143	(143)
Net finance expenses, fair value adjustments of derivatives and other items	(2,478)	(2,343)	(135)
<b>Total</b>	<b>(2,401)</b>	<b>(2,145)</b>	<b>(256)</b>

In particular, the decrease of 135 million of euro in net finance expenses, fair value adjustments of derivatives and other items refers almost entirely (128 million of euro) to higher interest rates and the change in debt exposure.

**Income tax expense**

Income tax expense totals 674 million of euro and is composed of:

IRES and IRAP current income taxes for 1,189 million of euro;

substitute tax for the realignment of off-book deductions, as allowed by Law 244 dated December 24, 2007, art. 1, paragraph 48, for 528 million of euro;

lower deferred taxes owing to the above tax alignment and other minor items for a total of 1,043 million of euro. The reduction of 970 million of euro compared to 2007 is due to:

lower tax rates with a positive impact of 137 million of euro; as from 2008, the IRES tax rate is reduced from 33% to 27.5% and the ordinary IRAP tax rate from 4.25% to 3.90%;

tax realignment of the above off-book deductions, with a positive impact of 509 million of euro, represented by income of 1,037 million of euro generated by the reversal of deferred tax charges and the recognition of a substitute tax expense of 528 million of euro;

lower taxable income and other positive changes of 324 million of euro.

**Balance sheet and financial performance****Balance sheet structure**

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(millions of euro)	12/31/2008	12/31/2007	Change
<b>ASSETS</b>			
Non-current assets	70,187	70,922	(735)
<i>of which Goodwill</i>	<i>40,013</i>	<i>40,013</i>	
Current assets	10,359	11,634	(1,275)
Discontinued operations/Non-current assets held for sale	9		9
	<b>80,555</b>	<b>82,556</b>	<b>(2,001)</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	22,900	23,615	(715)
Non-current liabilities	39,732	42,986	(3,254)
Current liabilities	17,923	15,955	1,968
	<b>80,555</b>	<b>82,556</b>	<b>(2,001)</b>

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**Review of financial and operating performance - Telecom Italia S.p.A.**

**Table of Contents****Net financial debt and cash flows****Net financial debt**

Net financial debt is 39,916 million of euro, with a reduction of 226 million of euro compared to 40,142 million of euro at year-end 2007.

Net debt is composed as follows:

(millions of euro)	12/31/2008	12/31/2007	Change
<b>NON-CURRENT FINANCIAL LIABILITIES</b>			
Bonds	15,683	16,500	(817)
Amounts due to banks, other financial payables and other financial liabilities	19,462	21,054	(1,592)
Finance lease liabilities	1,662	1,778	(116)
	<b>36,807</b>	<b>39,332</b>	<b>(2,525)</b>
<b>CURRENT FINANCIAL LIABILITIES <sup>(1)</sup></b>			
Bonds	608	1,272	(664)
Amounts due to banks, other financial payables and other financial liabilities	6,693	4,496	2,197
Finance lease liabilities	252	251	1
	<b>7,553</b>	<b>6,019</b>	<b>1,534</b>
<b>TOTAL GROSS FINANCIAL DEBT</b>	<b>44,360</b>	<b>45,351</b>	<b>(991)</b>
<b>NON-CURRENT FINANCIAL ASSETS</b>			
Financial receivables and other financial assets	640	582	58
	<b>640</b>	<b>582</b>	<b>58</b>
<b>CURRENT FINANCIAL ASSETS</b>			
Financial receivables and other financial assets	241	244	(3)
Cash and cash equivalents	3,563	4,383	(820)
	<b>3,804</b>	<b>4,627</b>	<b>(823)</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>4,444</b>	<b>5,209</b>	<b>(765)</b>
<b>TOTAL NET FINANCIAL DEBT</b>	<b>39,916</b>	<b>40,142</b>	<b>(226)</b>

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

<i>Bonds</i>	608	1,272	(664)
<i>Amounts due to banks, other financial payables and other financial liabilities</i>	5,298	3,216	2,082
<i>Finance lease liabilities</i>	252	251	1

The non-current portion of gross financial debt amounts to 36,807 million of euro (39,332 million of euro at year-end 2007) and corresponds to 83% of total gross financial debt.

The composition of net financial debt, besides the effect of debt repayments which are higher than new proceeds, is particularly impacted by the fair value measurement of hedging derivatives and relative underlying hedged items.

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In order to pursue the objectives of the Group in terms of the composition of debt and in accordance with the guideline policy for debt management using derivative instruments , Telecom Italia S.p.A., for both financing from third parties and intercompanies, uses IRS and CCIRS derivative instruments to hedge its liabilities. Additional details are provided in the Note Derivatives .

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risks on financial instruments denominated in currencies other than euro and the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

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The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2008:

**Net operating free cash flow**

(millions of euro)	2008	2007	Change
EBITDA	9,577	9,730	(153)
Capital expenditures on an accrual basis	(3,471)	(3,948)	477
Change in net operating working capital:	(503)	167	(670)
<i>Change in inventories</i>	(17)	27	(44)
<i>Change in trade receivables and net amounts due on construction contracts</i>	315	334	(19)
<i>Change in trade payables (*)</i>	(706)	765	(1,471)
<i>Other changes in operating receivables/payables</i>	(95)	(959)	864
Change in provisions for employees benefits	227	(195)	422
Change in operating provisions and Other changes	(233)	114	(347)
<b>Net operating free cash flow</b>	<b>5,597</b>	<b>5,868</b>	<b>(271)</b>

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

With regard to the changes in net operating free cash flows, reference should be made to the comments in the consolidated data of the Telecom Italia Group.

The following also had an effect on net financial debt during 2008:

**Disposal of investments and other divestitures flow**

The disposal of investments and other divestitures flow totals 516 million of euro. The amount mainly refers to the disposal of Liberty Surf Group S.A.S in August 2008 (455 million of euro, net of the price adjustment and accessory charges) as well as the reimbursement of capital made by the investment holdings.

**Capital expenditures flow**

The capital expenditures flow refers to acquisitions of intangible assets (1,414 million of euro) and tangible assets (2,057 million of euro).

**Financial investments and treasury shares buyback flow**

Financial investments totaling 631 million of euro are mainly for the subscription to the Liberty Surf Group S.A.S. capital increase on July 30, 2008 by waiving receivables due from that company. The treasury shares buyback flow refers to the purchase of 25 million Telecom Italia ordinary shares in September 2008 to service the plan for the free grant of Telecom Italia ordinary shares

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denominated Performance Share Granting , set aside for top management of Telecom Italian or its subsidiaries, approved by the shareholders meeting held on April 16, 2007.

The buyback was 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.

The buyback required a total outlay of 27 million of euro, corresponding to an average price per share of euro 1.08451 (including agent fees).

**Dividends flow**

Dividends were paid for 1,617 million of euro. Dividends received from Group companies amount to 129 million of euro and mainly include dividends from Telecom Italia Sparkle (114 million of euro) and Matrix (10 million of euro).

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

These mainly include the payment of taxes and net finance expenses during the year and, to a lesser degree, the change in non-operating receivables and payables.

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The following should also be mentioned with respect to the net financial debt of Telecom Italia:

**Sale of receivables to factoring companies**

The sale of receivables to factoring companies finalized in 2008 led to a positive effect on net financial debt at December 31, 2008 of 779 million of euro (724 million of euro at December 31, 2007).

**Bonds**

Bonds at December 31, 2008 are recorded for 16,291 million of euro (17,772 million of euro at December 31, 2007). Their nominal repayment amount is 15,882 million of euro, with a reduction of 1,505 million of euro compared to December 31, 2007 (17,387 million of euro).

Changes in bonds during 2008 are as follows:

(millions of euro)	amount	reimbursement date
<b>REPAYMENTS</b>		
Telecom Italia S.p.A. Floating Rate Notes Euribor 3M+ 0.22% maturing 2008	750	6/9/2008
<b>BUYBACKS</b>		
Telecom Italia S.p.A., 850 million of euro 5.25% maturing 2055	180	
Telecom Italia S.p.A., 750 million of euro 4.75% maturing 2014	77	
<b>NOTE</b>		

Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, total 348 million of euro (nominal amount) at December 31, 2008 and during 2008 increased by 51 million of euro (297 million of euro at December 31, 2007).

**Maturities of financial liabilities and average cost of debt**

The maturities of financial liabilities according to both the carrying amount (including measurements based on fair value adjustments and amortized cost, included in accrued expenses) and the expected nominal repayment amount, as contractually agreed, are presented below.

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The average maturity of non-current financial liabilities is 6.58 years.

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(millions of euro)	Carrying amount	Nominal repayment amount
<b>Maturing by 12/31 of the year:</b>		
2009 <sup>(*)</sup>	7,553	6,595
2010	3,536	3,454
2011	3,191	3,194
2012	9,711	9,697
2013	2,941	2,886
After 2013	17,428	16,872
<b>Total gross financial debt</b>	<b>44,360</b>	<b>42,698</b>

(\*) Including the carrying amount and nominal repayment amount of current liabilities, respectively, of 1,395 million of euro and 1,376 million of euro.

**Current financial assets**

Financial assets amount to 4,444 million of euro (5,209 million of euro at December 31, 2007), of which 3,804 million of euro (4,627 million of euro at December 31, 2007) is classified as current. This amount of current assets, together with unused committed credit lines for a total of 6.5 billion of euro, allows a broad coverage of repayment obligations.

**Equity**

Equity totaling 22,900 million of euro decreased by 715 million of euro compared to December 31, 2007 (23,615 million of euro). Changes in equity in 2008 and 2007 are reported in the following table:

(millions of euro)	2008	2007
<b>At beginning of the year</b>	<b>23,615</b>	<b>24,524</b>
Bond conversions, assignments of equity instruments and purchase of treasury shares	(26)	
Profit for the year	1,500	1,882
Dividends declared	(1,618)	(2,783)
Movements in the fair value reserve of available-for-sale assets and of derivative hedging instruments	(571)	(12)
Other changes		4
<b>At end of the year</b>	<b>22,900</b>	<b>23,615</b>

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**Review of financial and operating performance - Telecom Italia S.p.A.**

**Table of Contents****Financial statements Telecom Italia S.p.A.****Income statements**

(millions of euro)	Year	Year	Change	
	2008	2007	amount	%
Revenues	22,025	22,847	(822)	(3.6)
Other income	263	298	(35)	(11.7)
<b>Total operating revenues and other income</b>	<b>22,288</b>	<b>23,145</b>	<b>(857)</b>	<b>(3.7)</b>
Acquisition of goods and services	(9,004)	(9,471)	467	(4.9)
Employee benefits expenses	(3,448)	(3,112)	(336)	10.8
Other operating expenses	(688)	(1,260)	572	(45.4)
Changes in inventories	17	(27)	44	°
Internally generated assets	412	455	(43)	(9.5)
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)</b>	<b>9,577</b>	<b>9,730</b>	<b>(153)</b>	<b>(1.6)</b>
Depreciation and amortization	(4,426)	(4,259)	(167)	3.9
Gains (losses) on disposals of non current assets	27	1	26	°
Impairment reversals (losses) on non-current assets	(12)	(37)	25	°
<b>OPERATING PROFIT (EBIT)</b>	<b>5,166</b>	<b>5,435</b>	<b>(269)</b>	<b>(4.9)</b>
Income (expenses) from investments	(591)	236	(827)	°
Finance income	1,175	1,059	116	11.0
Finance expenses	(3,576)	(3,204)	(372)	11.6
<b>PROFIT BEFORE TAX</b>	<b>2,174</b>	<b>3,526</b>	<b>(1,352)</b>	<b>(38.3)</b>
Income tax expense	(674)	(1,644)	970	(59.0)
<b>PROFIT FOR THE YEAR</b>	<b>1,500</b>	<b>1,882</b>	<b>(382)</b>	<b>(20.3)</b>

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**Financial statements - Telecom Italia S.p.A.**

**Table of Contents****Balance sheets**

(millions of euro)	12.31.2008	12.31.2007	Change
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	40,013	40,013	
Intangible assets with a finite useful life	4,509	4,867	(358)
	<b>44,522</b>	<b>44,880</b>	<b>(358)</b>
<b>Tangible assets</b>			
Property, plant and equipment owned	11,643	12,208	(565)
Assets held under finance leases	1,369	1,442	(73)
	<b>13,012</b>	<b>13,650</b>	<b>(638)</b>
<b>Other non-current assets</b>			
Investments	10,695	11,199	(504)
Securities, financial receivables and other non-current financial assets	640	582	58
Miscellaneous receivables and other non-current assets	509	489	20
Deferred tax assets	809	122	687
	<b>12,653</b>	<b>12,392</b>	<b>261</b>
<b>TOTAL NON-CURRENT ASSETS (A)</b>	<b>70,187</b>	<b>70,922</b>	<b>(735)</b>
<b>CURRENT ASSETS</b>			
Inventories	115	98	17
Trade and miscellaneous receivables and other current assets	6,440	6,872	(432)
Current income tax receivables		37	(37)
Financial receivables and other current financial assets	241	244	(3)
Cash and cash equivalents	3,563	4,383	(820)
<b>Current assets sub-total</b>	<b>10,359</b>	<b>11,634</b>	<b>(1,275)</b>
<b>Discontinued operations/Non-current assets held for sale</b>			
of a financial nature			
of a non-financial nature	9		9
	<b>9</b>		<b>9</b>
<b>TOTAL CURRENT ASSETS (B)</b>	<b>10,368</b>	<b>11,634</b>	<b>(1,266)</b>
<b>TOTAL ASSETS (A+B)</b>	<b>80,555</b>	<b>82,556</b>	<b>(2,001)</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital issued	10,674	10,674	
less: treasury shares	(15)	(1)	(14)
Share capital	10,659	10,673	(14)
Reserves	7,345	7,928	(583)
Retained earnings, including net income for the year	4,896	5,014	(118)
<b>TOTAL EQUITY (C)</b>	<b>22,900</b>	<b>23,615</b>	<b>(715)</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current financial liabilities	36,807	39,332	(2,525)
Employee benefits	1,106	1,040	66
Deferred tax liabilities		479	(479)
Provisions	534	738	(204)
Miscellaneous payables and other non-current liabilities	1,285	1,397	(112)
<b>TOTAL NON-CURRENT LIABILITIES (D)</b>	<b>39,732</b>	<b>42,986</b>	<b>(3,254)</b>
<b>CURRENT LIABILITIES</b>			
Current financial liabilities	7,553	6,019	1,534
Trade and miscellaneous payables and other current liabilities	9,157	9,833	(676)
Current income tax payables	1,213	103	1,110
<b>TOTAL CURRENT LIABILITIES (E)</b>	<b>17,923</b>	<b>15,955</b>	<b>1,968</b>
<b>TOTAL LIABILITIES (F=D+E)</b>	<b>57,655</b>	<b>58,941</b>	<b>(1,286)</b>

<b>TOTAL EQUITY AND LIABILITIES (C+F)</b>	<b>80,555</b>	<b>82,556</b>	<b>(2,001)</b>
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**Financial statements - Telecom Italia S.p.A.**

**Table of Contents****Cash flows statements**

(millions of euro)	Year 2008	Year 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit	1,500	1,882
<i>Adjustments for:</i>		
Depreciation and amortization	4,426	4,259
Impairment losses (reversals) of on non-current assets (including investments)	264	103
Net change in deferred tax assets and liabilities	(950)	883
Losses (gains) realized on disposals of non-current assets (including investments)	436	(150)
Change in employee benefits	227	(195)
Change in inventories	(17)	27
Change in trade receivables and net receivables on construction contracts	315	334
Change in trade payables	(370)	500
Net change in miscellaneous receivables/payables and other assets/liabilities	735	(565)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)</b>	<b>6,566</b>	<b>7,078</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<i>Purchase of intangible assets on an accrual basis</i>	<i>(1,413)</i>	<i>(1,551)</i>
<i>Purchase of tangible assets on an accrual basis</i>	<i>(2,058)</i>	<i>(2,397)</i>
Total purchase of intangible and tangible assets on an accrual basis	(3,471)	(3,948)
<i>Change in amounts due to fixed asset suppliers</i>	<i>(336)</i>	<i>265</i>
Total purchase of intangible and tangible assets on a cash basis	(3,807)	(3,683)
Acquisitions of subsidiaries and businesses, net of cash basis	(630)	(702)
Acquisitions of other investments	(1)	(2)
Acquisition of cash and cash equivalents as a result of corporate transactions		(10)
Change in financial receivables and other financial assets	(65)	110
Proceeds from sales/repayments of intangible, tangible and other non-current assets	516	348
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)</b>	<b>(3,987)</b>	<b>(3,939)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in current financial liabilities and other	485	(410)
Proceeds from non-current financial liabilities (including current portion)	2,433	4,700
Repayments of non-current financial liabilities (including current portion)	(4,114)	(5,973)
Considerations paid for equity instruments	(27)	
Dividends paid	(1,617)	(2,780)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>	<b>(2,840)</b>	<b>(4,463)</b>
<b>AGGREGATE CASH FLOWS (D=A+B+C)</b>	<b>(261)</b>	<b>(1,324)</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)</b>	<b>3,465</b>	<b>4,789</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEARS (F=D+E)</b>	<b>3,204</b>	<b>3,465</b>

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Financial statements - Telecom Italia S.p.A.

**Table of Contents****Additional cash flows information:**

(millions of euro)	Year 2008	Year 2007
Income taxes (paid) received	(582)	(461)
Interest expense paid	(2,824)	(2,892)
Interest income received	570	668
Dividends received	129	152

**ANALYSIS OF NET CASH AND CASH EQUIVALENTS:**

(millions of euro)	Year 2008	Year 2007
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:</b>		
Cash and cash equivalents	4,383	5,208
Bank overdrafts repayable on demand	(918)	(419)
	<b>3,465</b>	<b>4,789</b>
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:</b>		
Cash and cash equivalents	3,563	4,383
Bank overdrafts repayable on demand	(359)	(918)
	<b>3,204</b>	<b>3,465</b>

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**Financial statements - Telecom Italia S.p.A.**



**Table of Contents****Reconciliation of consolidated equity**

(millions of euro )	Profit for the year		Equity at 12/31	
	2008	2007	2008	2007
<b>Equity and Profit for the year of Telecom Italia S.p.A.</b>	<b>1,500</b>	<b>1,882</b>	<b>22,900</b>	<b>23,615</b>
Equity and profit for the year of consolidated companies net of the share attributable of Minority Interest				
Interest	(124)	500	18,391	19,522
Carrying amounts of consolidated investments			(30,353)	(31,802)
<b>Consolidation adjustments:</b>				
- elimination of goodwill recognized in Parent financial statements			(40,013)	(40,013)
- recognition of positive differences arising from purchase of investments			43,817	44,341
- effect of elimination of carrying amount of shares of Parent held by Telecom Italia Finance			(468)	(468)
- valuation of investments using the equity method	55	49	102	85
- intragroup dividends	(236)	(318)		
- losses and impairment losses on consolidated companies included in the results of parent companies	415	184	11,072	10,527
- gains (losses) on sales of investments	636	148	(22)	(11)
- elimination of internal profits included in tangible and intangible assets	10	31	(20)	(28)
- elimination of intragroup transactions on investments			(2)	(3)
- derivatives	(5)	(14)	701	109
- other adjustments	(37)	(14)	21	48
<b>Equity and Profit for the year attributable to equity holders of the Parent</b>	<b>2,214</b>	<b>2,448</b>	<b>26,126</b>	<b>25,922</b>
Equity and Profit attributable to Minority Interest	1	7	730	1,063
<b>Equity and Profit for the year of the consolidated financial statements</b>	<b>2,215</b>	<b>2,455</b>	<b>26,856</b>	<b>26,985</b>

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**Reconciliation of consolidated equity**

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**Related party transactions**

The information on related party transactions required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Note "Related Party Transactions" in the annual consolidated financial statements at December 31, 2008 of the Telecom Italia Group and in the separate financial statements of Telecom Italia S.p.A.

Furthermore, a specific Group Steering Committee for Relations with Telefónica has been operational since the end of 2007. Its purpose, among others, is to identify business areas and activities that could lead to possible industrial synergies between the two Groups and to devise the resulting plans to implement them. The internal working groups that have consequently been set up between the two during 2008 have identified numerous areas of interest regarding:

the achievement of synergies, strictly speaking, especially in the areas of procurement, IT, technology and research, in which the mutual factor would be the experience and expertise of each of the two parties, with consequent possible improvements;

the sharing of best practices in the areas of specific processes or company services, aimed at improving performance in the respective domestic markets;

The project which, as announced in March 2008, estimates synergies of 1.3 billion of euro attainable by the two Groups in the three-year period 2008-2010; Telecom Italia's share would be 55%.

The operational sphere of the initiative would exclude the operations of the two Groups in Brazil and Argentina.

In view of its strategic nature, as well as having considered the circumstance that Telefónica is a related party of Telecom Italia, the Committee for Internal Control and Corporate Governance has been called upon to monitor the manner in which the project is implemented, in light of the specific rules of conduct.

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**Related party transactions**

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### **Sustainability section**

#### **Introduction**

For twelve years, Telecom Italia Group has been analysing its own performance with regard to those interested parties on whom it depends and who influences by its own activities, that is, the stakeholders: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders.

The inclusion, as of 2003, in the Report on Operations of information concerning activities that regard stakeholders is confirmation of the Group's willingness to present its financial data along with non-financial information.

#### **References and Governance**

In defining and implementing its own Sustainability strategy and programmes, Telecom Italia Group makes reference to the guidelines issued by the main global organisations of guidance and standardisation in Corporate Responsibility.

In 2002, Telecom Italia endorsed the principles of the Global Compact, the main point of reference at the worldwide level, which was launched in 2000 by the UN to promote the protection of the environment, respect for human rights and working standards, and anti-corruption practices. The System of Sustainability Management also takes into account international regulations and the main standards in the area:

the Recommendations and Communications of the European Commission;

the OCSE guidelines directed at multi-national enterprises;

the principles of the international research institute, AccountAbility, on Assurance and on Stakeholder Engagement;

the ISO 9000 and ISO 14000 certificates for the Quality and Environmental Systems of Management;

the principles of the Conventions of the International Labour Organisation (ILO) on respecting the fundamental rights of workers;

the Social AccountAbility 8000 standard (SA8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains.

The Board of Directors' meeting of November 7, 2008, decided to group the monitoring of activities in the field of Sustainability under the oversight of the External Relations Department, thus giving it a supervisory and coordinating role, and by establishing the Telecom Italia Foundation. The Board of Directors also decided to take on responsibility for scrutinising all Sustainability activities through Internal Control and the Corporate Governance Committee that will check Sustainability activities, including projects managed by the Telecom Italia Foundation, to ensure they are consistent with the Group's ethical values.

#### **Reporting and Planning**

##### **Reporting**

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The performance analysis and the associated reporting of the results are based on a multi-stakeholder approach and upon around 200 KPI (Key Performance Indicators), defined on the basis of the analysis of the GRI (Global Reporting Initiative) guidelines, the demands of stakeholders and the questionnaires sent by the leading rating agencies, with the aim of inclusion in the indexes of Sustainability. Regarding the GRI Application Levels, defined by the G3 guidelines, the A+<sup>(1)</sup> level requirements have been followed.

The methodology pursued in measuring investments in the community is that defined by the London Benchmarking Group (LBG).

For the purposes of the Sustainability report, subsidiary companies included in the area of consolidation have been taken into account, unless otherwise stated (see chapter The Environment ), excluding Discontinued operations/Non-current assets held for sale.

<sup>(1)</sup> The attainment of level A+ is subject to confirmation by GRI.

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**Sustainability section**

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The selection of matters to be published in the Sustainability report has been made on the basis of the principles of materiality, responsiveness and completeness as defined by AccountAbility, in line with the GRI guidelines: the information reported concerns the relevant impacts (in the economical/environmental/social terms) of Group's activity on stakeholders.

### **Planning**

The Sustainability Plan is based on a procedure that is broken down into four phases: identification of areas for improvement, a comparison between the areas for improvement and the projects the Group intends to carry out for the purposes of its business; definition of the interventions targeted at the areas for improvement for which the projects already planned prove insufficient; monitoring the areas in need of supervision in order to maintain the level of Sustainability performance achieved. Within the decision-making process that leads to the approval of investments, the business projects that require relevant investment, presented for approval by the appropriate Committees, are accompanied by an assessment schedule in which their impact, in terms of the Sustainability of the investment, is stated.

### **Results**

A summary of the principal initiatives undertaken in 2008 is reported below.

To better assess performance in terms of energy consumption, Telecom Italia has developed an indicator that sets the service offered to the customer, simplified as the measurement of bits transmitted, and the company's impact on the environment in terms of energy consumed. The improvement in eco-efficiency compared to 2007, measured by this indicator, is equal to around 35%. Further information can be obtained in the chapter The Environment/Energy.

The numerous initiatives to optimise the use of electricity brought an overall reduction in consumption of 1.08% compared to the previous year. The improvement in the mix of electricity provision (a reduction in the acquisition from traditional sources, an increase in the acquisition from renewable sources and in-house electricity production through co-generation), the modernisation of heating plant and the company car fleet, paved the way for a reduction in emissions of carbon dioxide of 1.39% compared to 2007. Further information can be found in the chapter The Environment/Energy and Atmospheric Emissions.

In the 2008 edition of Carbon Disclosure Project (CDP), Telecom Italia was listed as the best Italian company among those included in the Global500 Index for the communication of data related to climate change.

Telecom Italia has been included among the top ten companies of the S&P Mib40 in the Accountability Rating 2008, developed by AccountAbility and other partners in order to measure the Sustainability performance of companies.

Meetings with SRI (Socially Responsible Investing) investors have continued in 2008. These are operators who, in their choice of investments, favour those companies that pay particular attention to ethical, social and environmental issues, without detriment to their economic-financial performance. A special road show dedicated to the SRI investors was held in two different European markets (Frankfurt and Paris), organised by a joint team including the Investor Relations and Group Sustainability departments. Investors expressed their general appreciation of the Group's Sustainability model and made some suggestions for future developments.

In the context of the Alliance between the European Commission and companies, launched on March 22, 2006, the work of the Sustainability and evaluation of non-financial performance laboratory, of which Telecom Italia is co-leader, has continued, with the aim of defining an advanced communication model for non-financial performance, in line with the need expressed by investors and other stakeholders. To stimulate a dialogue on the subject, a wide-ranging consultation process has been begun, with a round of meetings and a dedicated internet site. The preliminary results from the laboratory were presented on December 4, 2008, in Brussels,

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in the presence of representatives from the Institutions, academia, the business world and NGOs. Against that backdrop, the workshop won the explicit appreciation of the Vice President of the European Commission, Günter Verheugen.

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**Sustainability section**

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**Placement in the indexes**

The Sustainability indexes represent stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The process of selection is carried out by specialised rating agencies.

Telecom Italia has been confirmed in the leading indexes of Sustainability at the national and international levels:

Dow Jones Sustainability World Indexes (DJSI World);

Dow Jones STOXX Sustainability Indexes (DJSI STOXX).

Financial Times Stock Exchange for Good (FTSE4Good) Global 100;

FTSE4Good Europe 50;

FTSE4Good Environmental Leaders Europe;

Ethibel Sustainability Indexes (ESI):

Excellence Europe;

Excellence Global;

Pioneer Global.

Advanced Sustainable Performance Index (ASPI) Eurozone;

KLD Sustainability Indexes:

Global;

Global ex US;

Europe;

Europe Asia Pacific;

E.Capital Partners Indexes (ECPI):

Ethical Global;

Ethical Euro;

Ethical EMU;

ECPI Global TOP 30;

Axia:

Ethical;

Euro Ethical;

CSR.

Tim Participações has been included in the ISE (Índice de Sustentabilidade Empresarial) index, run by Bovespa (the San Paolo stock exchange) together with the Brazilian Environment Ministry, UNEP and other financial and Sustainability organisations.

**Economic value generated and distributed**

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

(millions of euro)	2008	2007
<b>Direct economic value generated</b>		
a) Revenues and other income	30,514	31,419
b) Interest payable and dividends paid	329	295
c) Capital gains (capital losses) from disposals of non-current activities	35	5
<b>d) Direct economic value generated (a+b+c)</b>	<b>30,878</b>	<b>31,719</b>
<b>Economic value distributed</b>		
e) Operating costs	14,508	15,513
f) Employee costs	4,220	3,822
g) Shareholders and providers of capital	4,009	5,259
h) Taxes and duties	2,126	1,164
<b>i) Economic value distributed (e+f+g+h)</b>	<b>24,863</b>	<b>25,758</b>
<b>Economic value retained (d-i)</b>	<b>6,015</b>	<b>5,961</b>

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



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**Sustainability section**

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(millions of euro)	2008	2007
Wages and salaries	2,677	2,651
Social security costs	958	932
Provisions for employees' severance and retirement	71	71
Other expenses	514	168
<b>Employee costs</b>	<b>4,220</b>	<b>3,822</b>
<b>(millions of euro)</b>	<b>2008</b>	<b>2007</b>
Acquisition of external goods and services	13,876	14,255
Other operating costs <sup>(*)</sup>	1,277	1,815
Change in inventories	(114)	(11)
Internally generated assets	(531)	(546)
<b>Operating costs</b>	<b>14,508</b>	<b>15,513</b>

<sup>(\*)</sup> Mainly consists of devaluations and expenses connect to the management of non-financial credits of 744 millions of euro (951 millions of euro in 2007) and contributions and fees for TLC activities of 315 millions of euro (283 millions of euro in 2007), net of Other taxes and duties of 419 millions of euro (416 millions of euro in 2007) included in the item Taxes and duties .

(millions of euro)	2008	2007
Dividends distributed	1,668	2,840
Interest payable	2,341	2,419
<b>Shareholders and providers of capital</b>	<b>4,009</b>	<b>5,259</b>

(millions of euro)	2008	2007
Income taxes	1,707	748
Indirect taxes and duties	419	416
<b>Taxes and duties</b>	<b>2,126</b>	<b>1,164</b>
of which regarding Italian activities	1,780	944
of which regarding activities abroad	346	220

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Sustainability section

**Table of Contents****Customers****Customer Satisfaction**

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

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

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

The information contained in the following two tables was obtained through the first of the two kinds of surveys listed above and refers to the 2008 progressive weighted average.

	Customer segment	Satisfaction with access service (*)	Satisfaction with billing (*)
<b>Fixed telephony</b>	Consumer	7.98	7.14
	Business	7.59	6.56
	Customer segment	Satisfaction with network coverage (*)	Satisfaction with billing (*)
<b>Mobile telephony</b>	Consumer	8.34	7.60
	Business	8.10	6.97

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

The information contained in the following table was obtained through the second of the two kinds of surveys listed above and it refers to the 2008 progressive weighted average.

**Customer satisfaction with Customer Care**

	Customer segment	Overall satisfaction (*)	Courtesy of operator (*)	Competence of operator (*)
<b>Fixed telephone</b>	Consumer <sup>(1)</sup>	6.63	8.34	7.67
	Business <sup>(2)</sup>	6.09	8.13	7.23
<b>Mobile telephone</b>	Consumer <sup>(3)</sup>	7.50	8.74	8.16
	Business <sup>(4)</sup>	6.49	8.31	7.32

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

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- (1) Assistance provided by the 187 service for information, commercial and administrative calls, connections/disconnections, purchases, subscriber switches, claims and reminders.
- (2) Assistance provided by the 191 service for information, commercial and administrative calls, connections/disconnections, purchases, subscriber switches, claims and reminders.
- (3) Assistance provided by the 119 Service for information, commercial and administrative calls, changes and claims.
- (4) Assistance provided by the Business Toll Free Number for information, commercial and administrative calls, changes and claims.

### **Customer satisfaction within the management incentive scheme**

Telecom Italia's short-term management incentives scheme provides, among the targets for all those within the scheme, one linked to customer satisfaction. This target is measured through the Customer Satisfaction indices for fixed and mobile services, monitored through the first of the two kinds of surveys listed above (ACSI compliant).

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**Sustainability section - Customers**

**Table of Contents****Suppliers**

The following table shows the status of all the objectives established for 2008, together with the new objectives for 2009:

<b>Subject</b>	<b>2008 Targets</b>	<b>Status</b>	<b>2009 Targets</b>
<b>ISO 9001 and ISO 14001 certification</b>	Completion of the ISO 9001 certification of TI Group's Purchasing Department and ISO 14001 certification of Facility Management activities of the said Department.	Achieved	Maintenance of the ISO 9001 certification of TI Group's Purchasing Department and the ISO 14001 certification of the Facility Management activities of the said Department.
<b>E-community project</b>	Development of an e-community project through the creation in the Supplier Portal of a multimedia environment for: <p style="margin-left: 40px;">publishing policies, standards, specific targets, and best practices, in the field of Sustainability;</p> <p style="margin-left: 40px;">stimulate the start up of Sustainability projects;</p> <p style="margin-left: 40px;">organise electronic voting campaigns for suppliers on our own Sustainability projects and those of the suppliers.</p>	Achieved	Development and extension of the e-community to other groups of suppliers.
<b>Supplier evaluation</b>	The calculation of a Global Vendor Rating index that takes account of suppliers' performance in the field of environmental and social Sustainability.	Achieved	Introduction of environmental criteria, with a weighting no less than 10%, in the bidding process for some of the main products for marketing.
<b>Controls on Telecom Italia suppliers</b>	An increase of 10% of the scheduled checks on suppliers in the areas of Ethics and Sustainability, integrating the controls currently carried out by audits with monitoring conducted on a self-evaluation basis.	Achieved	
<b>Controls on suppliers of subsidiary companies</b>	The extension of the checking activities involving the main suppliers of the subsidiary, Hansenet Telekommunikation GmbH (Germany) and the requested adherence to the principles of TI Group's Code of Ethics.	Achieved	

Among the initiatives cited above, particular importance is attached to those regarding the Global Vendor Rating and the e-community of principal suppliers.

The Global Vendor Rating indicator, defined during 2008 and applied as an experiment concerning the firms operating in the network works sector also takes into consideration, over and above the usual technical, administrative and commercial parameters, the social (including monitoring accidents) and environmental performance of suppliers, with a weighting equivalent to 20%. Regarding the e-community of the principal suppliers, presently active only for the firms operating in the network works sector and for ICT partners, this has already produced some operational results in the field of safety.

Moreover, initiatives aimed at improving transparency in dealings with suppliers have been pursued:

a second survey was carried out into the level of satisfaction of the Group's main suppliers with the Purchasing Department, and with Telecom Italia in general. The average evaluation that can be deduced from around 290 questionnaires compiled (participation of around 42% against 34% in 2007) was equal to  $69/100$  ( $71/100$  in 2007);

an assessment was also carried out in 2008 (with reference to the year 2007) of Telecom Italia Group's conformity rating with the SIRF Guidelines Sustainability and Integrity within the relationship with suppliers, run by a leading independent evaluation company. The results were also optimum for the year 2007, with an overall improvement in the valuation (the total points were 87.40% against 83.42% in 2006).

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**Sustainability section - Suppliers**

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### **Competitors**

#### **Organisations and associations**

##### **Collaboration with competitors at the national level**

###### Confindustria and National Partner Associations

Telecom Italia is involved in the management of association relations, coordinating lobbying and representation activities with Confindustria and its member associations. The Group is a member of 100 territorial associations and of the following federations/associations in the sector: Confindustria Servizi Innovativi, Asstel, Assoelettrica.

###### Association in support of the Committee on Minors in TV

In 2003, Telecom Italia Media and MTV signed up to the Code of Self-Regulation for the Protection of Minors in TV. To actively support the work of the Committee in charge of meeting the commitments assumed under the Code, an association was constituted, to which Telecom Italia Media, Rai, Mediaset, Radio and Television Federation (FRT) and Aeranti-Corallo subscribed.

###### Ugo Bordoni Foundation

Together with other operators in the sector, the Group participates in the Ugo Bordoni Foundation (FUB), which conducts, amongst other things, research, studies and consultation in the communications and information technology sector, and runs numerous projects in collaboration with the Ministry of Communications and with other public and private bodies.

###### DGTVi

Telecom Italia Media is a member of DGTVi (National Association for Digital Terrestrial Television) together with Rai, Mediaset, D-Free, Aeranti-Corallo and FRT. In 2008, the Association's activities were concentrated both on the concluding phase of the conversion from analogue television to digital terrestrial that took place in Sardinia on October 31, and on the work begun under the auspices of the task-forces created for each of the regions that will convert to digital in 2009: Valle d'Aosta, Piedmont, the provinces of Trento and Bolzano, Lazio and Campania.

Moreover, the Group subscribes to and participates in the work of the following associations: Distretto dell'Audiovisivo e dell'ICT, FRT, the Association for the Convergence of Communications Services (ANFoV), HD Forum, Auditel, the Italian National Digital Committee (CNID).

##### **Collaboration with competitors at the international level**

At the international level, Telecom Italia Group collaborates with various organisations and associations, among which are:

ETNO (European Telecommunications Network Operators Association): an association within the sector among whose objectives are the development of a competitive and efficient European Telecommunications market through coordination amongst operators and dialogue with institutions;

GSMA Europe: an association that brings together European mobile phone operators, whose objectives include the development of the European mobile phone and associated services market, with particular attention to the regulatory aspects;

ITU (International Telecommunications Union): a United Nations Organisation agency whose objective is to promote the establishment, jointly among Governments and the private sector, of international technical standards, of operating procedures for wireless services and of programmes for the improvement of the Telecommunications infrastructure in developing countries.

**Commitments regarding access network**

At the end of the dialogue that was undertaken, Telecom Italia assumed certain precise commitments with regard to AGCOM in order to improve the efficiency of the administrative separation, introduced in 2002 (Resolution 152/02/CONS) within the Wholesale Area, for the sale of services to other operators and to the Retail Areas.

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**Sustainability section - Competitors**



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The commitments<sup>(1)</sup>, are subdivided into 14 groups, to which 3 methodological commitments have been added (Variation, Deadline, Modulation). They have the following objectives:

to guarantee equal treatment, both technical and financial, with regard to the production procedures of wholesale access services, by the Open Access department, charged with the management of access network;

to make transparent the financial conditions for selling some specific services to the commercial departments of Telecom Italia, through service contracts;

ensure the satisfaction of operators and end customers, also by reducing disputes, through the development and qualitative improvement of the fixed access network and related services;

to make the evolution of Telecom's fixed access network more transparent for operators;

ensure the maintenance of conditions of competition in the transition to new generation networks.

## **Institutions**

### **Relations**

The regulatory activities of the national institutions - both central (Parliament, Government) and local (Regions, local Authorities and Independent Authorities in the sector) - are constantly monitored by Telecom Italia Group. To this end, Telecom Italia interacts with the competent national Institutions (Parliamentary Commissions, the Ministry of Economic Development and other Ministries, and Local Authorities), and with the European Commission and its Regulatory Committees, the Council of Europe, the European Parliament and the ERG (European Regulators Group).

### **National legislative activity**

The main legislative measures of interest to the Group that were approved, or were in the course of being approved, during 2008, are the following:

Law no. 31 of February 28, 2008, which introduces the possibility of exclusion, for television broadcasters in particular financial situations, such as La7 and MTV, from the obligation, introduced under the financial law 2008, of contributing to European audiovisual projects.

Legislative Decree May 30, 2008, no. 109, enacting the so-called "Frattini directive", which lays down, for Telecommunications providers, new time periods for the retention of telephone voice and data traffic for judicial purposes.

Law no. 101 of June 6, 2008, which enshrined in law the so-called "Save-infringement" decree: article 8 i) makes, amongst other measures, the activities of network operators dependent on the issuing of general authorisations under the Code of Electronic Communications, and provides for the conversion of licenses presently held by network operators into such authorisations.

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Law no. 133 of August 6, 2008, which contains, amongst other measures, provisions to streamline the authorisation procedures for building the infrastructure for electronic communications (the recourse to the Declaration of the Start of Operations) and measures to facilitate the laying of fibre optics, and the free use of existing civic infrastructure, owned by local Authorities and authorised public agencies.

Article 19 of the Thousand extensions decree law, postpones until July 1, 2009, the date starting from which it will be possible to launch joint legal proceedings for damages against businesses (so-called class actions).

Bills linked to the 2009 Budget, now being examined by Parliament, contain:

<sup>(1)</sup> A complete list of commitments may be obtained at [www.agcom.it](http://www.agcom.it).

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**Sustainability section - Institutions**

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regulations aimed at the development of broadband, such as the allocation (for the period 2007/2013) of 800 million euros to the Fund for infrastructure projects in Underdeveloped Areas (FAS) and the measure promoting the mini-trench excavation technique for the installation of broadband infrastructure;

the widening of technological areas under the Plan for Industry 2015 regarding projects of industrial innovation, which is also extended to the ICT sector.

**European legislative activity**

The Group has concentrated its activities in the following areas:

the monitoring of the activities of the European Parliament and the EU Council of Ministers on the Community's new regulatory framework for electronic communications and the activities of the European Commission concerning the provisions made by national sector Authorities in the relevant markets (Recommendation 2007/879/EC);

the process of adoption of the Directive on electronic payments in the internal market;

the proposal to amend the regulation on international roaming services and the process of adoption of the amendments to such regulation.

the analysis of the texts of the Recommendation on regulated access to NGN and on fixed and mobile terminations;

the analysis of the activities and decisions of the European bodies charged with the implementation of the regulatory framework (the sector Committee Cocom and the European Regulators Group ERG).

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**Sustainability section - Institutions**

**Table of Contents****The environment****Environmental performance**

Environmental performance reporting figures have been drawn up from management data and, following the principle of materiality, only those subsidiary companies have been included in the consolidated accounts that fulfil both of the following two prerequisites: revenue greater than 300,000 euros and more than 40 employees, excluding discontinued operations/non-current assets held for sale.

The environmental performance data, reported in the following pages, cover:

energy;

atmospheric emissions;

water;

paper;

waste.

**Energy**

Energy consumption by Telecom Italia S.p.A and the Group as a whole is shown below.

**Heating systems**

		<b>Telecom Italia S.p.A.</b>	<b>Changes %</b>	
		<b>2008</b>	<b>2008</b>	<b>2008</b>
			<b>vs 2007</b>	<b>vs 2006</b>
Energy consumed in diesel fuel	MJ	142,647,530	-4.36%	-11.80%
Energy consumed in methane fuel	MJ	684,483,906	-5.11%	-5.74%
Total energy for heating	MJ	827,131,436	-4.98%	-6.84%

**Heating systems**

		<b>TI Group breakdown by BU (%)</b>			
		<b>TI Group 2008</b>	<b>Domestic/BroadBand/ Brazil (*)</b>	<b>Media</b>	<b>Olivetti</b>
Total energy for heating	MJ	950,005,158	91.45%	0.27%	8.28%

(\*) In this table, and in the subsequent tables in this chapter, the Domestic/BroadBand/Brazil scope includes domestic activities of fixed and mobile TLC, as well as the related support activities, BroadBand services in Germany and the Netherlands and the activities of Tim Brasil

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Group. Following the Bolivian government's Decree of May 1, 2008, which provided for the nationalisation of the shares of Entel Bolivia held by Telecom Italia Group, Entel Bolivia does not fall within the scope of the data reporting.

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**Sustainability section - The environment**

**Table of Contents****Vehicles**

		Telecom Italia S.p.A. 2008	Changes %	
			2008 vs 2007	2008 vs 2006
Unleaded petrol consumption	I	10,164,548	-27.63%	-40.16%
Diesel consumption	I	14,509,532	34.58%	62.12%
Total energy consumption <sup>(*)</sup>	MJ	844,539,630	0.96%	-2.45%

<sup>(\*)</sup> Represents the conversion into MegaJoules of the consumption of unleaded petrol and diesel expressed in litres. The data also include LPG consumption (330 liters, equal to 9,890 MJ)

The increase in the consumption of diesel and the reduction in the consumption of petrol are to be ascribed to the gradual change in the composition of the company fleet, which has favoured cars with diesel engines.

**Vehicles**

		TI Group 2008	TI Group breakdown by BU (%)		
			Domestic/Broadband/ Brazil	Media	Olivetti
Total energy consumption	MJ	1,337,027,854	98.04%	0.62%	1.34%

**Number of vehicles and distance travelled**

		Telecom Italia S.p.A. 2008	Changes %	
			2008 vs 2007	2008 vs 2006
Total number of company vehicles	no.	21,448	-0.51%	-3.09%
Number of low-emission vehicles <sup>(*)</sup>	no.	21,097	-0.52%	-3.11%
Total distance travelled	km	313,946,775	0.63%	-0.12%

<sup>(\*)</sup> Vehicles fuelled by unleaded petrol, eco-diesel, biodiesel, GPL (meeting the Euro4 standard or higher), electricity or fuelled by other combustibles with comparable or lower emissions.

**Number of vehicles and distance travelled <sup>(\*)</sup>**

		TI Group 2008	TI Group breakdown by BU (%)		
			Domestic/Broadband/ Brazil	Media	Olivetti
Total number of vehicles	no.	23,252	98.42%	0.60%	0.98%
Total distance travelled	km	351,955,120	97.28%	0.97%	1.75%

<sup>(\*)</sup> The data shown refer to travel time and to the number of all vehicles (including ships) of the Group (industrial, commercial, used by senior and middle management) both owned and hired. Only where usage is significant and continuous, have vehicles (and travel times) owned or in use by the sales force of Tim Participações been included.

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**Sustainability section - The environment**

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Electricity consumption by Telecom Italia S.p.A and the Group as a whole is shown below.

**Purchased or produced energy**

		Telecom Italia S.p.A. 2008	Changes %	
			2008 vs 2007	2008 vs 2006
Electrical energy from mixed sources <sup>(*)</sup>	kWh	2,093,422,340	-1.34%	0.79%
Electrical energy from renewable sources	kWh	37,219,674	16.31%	24.07%
Total electrical energy	kWh	2,130,642,014	-1.08%	1.13%

<sup>(\*)</sup> Electrical energy acquired from mixed sources was equal to 2,079 GWh. Self-produced electrical energy was equal to around 14 GWh and is supplied by a co-generation plant which also produces almost 4 GWh of thermal energy, with an associated consumption of methane gas equal to m<sup>3</sup> 3.39 millions.

**Purchased or produced energy**

		TI Group 2008	TI Group breakdown by BU (%)		
			Domestic/BroadBand/ Brazil	Media	Olivetti
Total electrical energy	kWh	2,561,248,540	97.99%	1.13%	0.88%

Telecom Italia S.p.A. has launched a series of projects aimed at optimizing energy consumption and encouraging the use of renewable energy sources. Among these were:

decommissioning obsolete technologies and platforms, rationalising the network infrastructure and updating plant technology;

co-generation systems;

using alternative climate control systems in the exchanges and raising temperatures;

using information technology resources in shared, virtual environments;

remote control and measurement of energy of the exchanges rooms;

the separation of climate control in offices, exchanges and Base Transceiver Stations;



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the regulation of the power factor of plant to reduce the reactive energy drawn by the network;

sharing BTS thanks to co-siting agreements with other Operators;

reduction/rationalisation of premises;

experiments with traditional and innovative photo voltaic equipment;

experiments with mixed energy sources (wind and photo voltaic);

the acquisition of energy that is certified as being from renewable sources.

**Eco-efficiency Indicator**

Telecom Italia S.p.A. measures its own energy efficiency by using an indicator that establishes a relationship between the service offered to the customer, simplified as the measurement of bits transmitted, and the company's impact on the environment in terms of energy consumed.

The following table shows the level of the eco-efficiency indicator for TLC services in recent years.

Year	kbit/kWh	bit/Joule	Increase % year 200x vs. 200x-1
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,175,006	596	+63%
2007	3,144,283	873	+45%
2008	4,237,038	1,177	+35%

In 2008, the indicator's value was around 35% higher than 2007, exceeding the target set (1,130 bit/Joule). The annual increase is progressively diminishing: energy efficiency measures and the rise in traffic already achieved have reduced the margin for further improvement.

**Atmospheric emissions**

The following tables show the atmospheric emissions by Telecom Italia S.p.A. and by the Group, classified according to the GHG Protocol<sup>(1)</sup>, with reference to Scope1 (heating systems, vehicle propulsion and co-generation<sup>(2)</sup>) and Scope2 (acquired electrical energy<sup>(3)</sup>).

**Atmospheric emissions**

		Changes %		
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Emissions of CO <sub>2</sub> from purchased electrical energy produced from mixed sources	Kg	842,189,133	-2.00%	0.12%
Emissions of CO <sub>2</sub> from co-generation	kg	5,100,000		
Emissions of CO <sub>2</sub> produced for heating	Kg	54,977,728	-4.96%	-6.99%
Emissions of CO <sub>2</sub> produced for vehicles	Kg	61,451,387	2.29%	-0.39%
Total emissions of CO <sub>2</sub>	Kg	963,718,248	-1.39%	0.18%

- (1) The GHG Protocol, instituted in 1998 within the World Resources Institute and the World Business Council for Sustainable Development, supports businesses on the subject of greenhouse gas emissions through methods of calculation and studies aimed at promoting innovation and the acceptance of responsibility for climate change.
- (2) Emissions of CO<sub>2</sub> connected to the use of fossil fuels for powering motor vehicles and heating systems have been calculated following the directions of the UNEP (United Nations Environment Programme).
- (3) To calculate the emissions from the acquisition of electrical energy, the GHG Protocol method has been used. This takes into consideration the energy mix of individual countries. The national GHG coefficient, expressed in grammes of CO<sub>2</sub>/kWh, are as follows: Italy 405; Germany 349; the Netherlands 387. For Brazil, the coefficient worked out by the local Energy Ministry has been used, which is equal to 29 grammes of CO<sub>2</sub>/kWh, and which is held to be more accurate.