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)

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 x 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 x

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;

- 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,

Profile of the Company

and business trends in 2008

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.

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.

A new climate

the rapport with the Regulator

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.

Open Access

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

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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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Brazil a return to excellence

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.

Sustainability

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.

The economic scenario in 2009 and the role of telecommunications

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.

Why trust is justified

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.

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 [(1)] 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[(1)] 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[(1)] 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.

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.

Selected financial and operating data - Telecom Italia Group

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Consolidated financial and operating data

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

Consolidated balance sheet data[2]

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

Headcount, number in the Group at year-end [4]

(millions of euro)					
Headcount (excluding headcount of Discontinued operations/ non-current assets held for sale)	**77,825**	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 [4]

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

Consolidated profit ratios

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

Operating data

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

Chairman	Gabriele Galateri di Genola
Chief Executive Officer	Franco Bernabè
Directors	César Alierta Izuel
	Paolo Baratta (independent)
	Tarak Ben Ammar
	Roland Berger (independent)
	Elio Cosimo Catania (independent)
	Jean Paul Fitoussi (independent)
	Berardino Libonati
	Julio Linares López
	Gaetano Micciché
	Aldo Minucci
	Gianni Mion (°)
	Renato Pagliaro
	Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano (*)

(°) 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	Paolo Golia
Acting Auditors	Enrico Maria Bignami
	Salvatore Spiniello
	Ferdinando Superti Furga
	Gianfranco Zanda
Alternate Auditors	Luigi Gaspari
	Enrico Laghi

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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Macro-organization chart -

Telecom Italia Group at December 31, 2008

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

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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 ([1])		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 Itel 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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Financial Ratios

Telecom Italia S.p.A.

(euro)	2008	2007	2006
Stock prices (December average)			
- Ordinary	1.09	2.18	2.28
- Savings	0.73	1.68	1.94
Dividends per share			
- Ordinary	0.050	0.080	0.140
- Savings	0.061	0.091	0.151
Pay Out Ratio (*)	70%	86%	67%
Market to Book Value (**)	0.82	1.67	1.72
Dividend Yield (based on December average) (***)			
- 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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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 BBNed 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:

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

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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[1], 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:

	2008		2007		Change		
(millions of euro)		%		%	**amount**	**%**	**% 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)	
Adjustments and Eliminations	*(365)*	*(1.3)*	*(270)*	*(0.9)*	*(95)*	*35.2*	
Total consolidated revenues	**30,158**	100.0	**31,013**	100.0	(855)	(2.8)	(2.3)

(1) 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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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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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:

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

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)
Total non-organic (income) expenses	**329**	**618**	**(289)**

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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)
Total acquisition of goods and services	**13,876**	**14,255**	**(379)**

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
Employee benefits expenses Italian companies:			
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
Total employee benefits expenses Italian companies	**3,810**	**3,417**	**393**
Employee benefits expenses foreign companies:			
Ordinary employee costs and expenses	406	390	16
Entel Bolivia Group (*)	4	15	(11)
Employee benefits expenses foreign companies	**410**	**405**	**5**
Total employee benefits expenses	**4,220**	**3,822**	**398**

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

The decrease of 70 million 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

(-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)
Total average salaried workforce	**76,028**	**78,278**	**(2,250)**
Non-current assets held for sale Foreign	757	1,350	(593)
Total average salaried workforce including Non-current assets held for sale	**76,785**	**79,628**	**(2,843)**

(1) The change from 2007 includes the addition of Shared Service Center s average headcount of 460 employees.
(2) The change from 2007 includes the deduction of 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)
Total Headcount excluding Non-current assets held for sale (1)	**77,825**	**82,069**	**(4,244)**
Non-current assets held for sale - Foreign		1,360	(1,360)
Total - including Non-current assets held for sale	**77,825**	**83,429**	**(5,604)**

(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

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

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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)
Total	**1,696**	**2,231**	**(535)**

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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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
Total Non-organic (income) expenses	**315**	**609**	**(294)**

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)
Total	**64**	**86**	**(22)**

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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
Total	**4**	**467**	**(463)**

In 2007, the Net gains on disposals of Other investments included, in particular, the gain on the disposal of the entire stakes held in Oger Telecom (86 million 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)
Total	**(2,634)**	**(2,184)**	**(450)**

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:

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 (1)	Change	12/31/2007
ASSETS				
Non-current assets	70,942	70,056	886	70,688
of which Goodwill	*43,891*	*44,171*	*(280)*	*44,420*
Current assets	14,684	17,352	(2,668)	16,737
Discontinued operations/Non-current assets held for sale	9	768	(759)	
	85,635	**88,176**	**(2,541)**	**87,425**
EQUITY AND LIABILITIES				
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)	
	85,635	**88,176**	**(2,541)**	**87,425**

(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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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 [(2)]	Change	12/31/2007
NON-CURRENT FINANCIAL LIABILITIES				
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
	36,527	**37,039**	**(512)**	**37,051**
CURRENT FINANCIAL LIABILITIES [(1)]				
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
	6,267	**6,590**	**(323)**	**6,585**
Financial liabilities directly associated with Non-current assets held for sale		701	(701)	
TOTAL GROSS FINANCIAL DEBT	**42,794**	**44,330**	**(1,536)**	**43,636**
NON-CURRENT FINANCIAL ASSETS				
Securities other than investments	(15)	(9)	(6)	(9)
Financial receivables and other financial assets	(2,648)	(686)	(1,962)	(686)
	(2,663)	**(695)**	**(1,968)**	**(695)**
CURRENT FINANCIAL ASSETS				
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)
	(6,092)	**(7,901)**	**1,809**	**(7,240)**
Financial assets included in Non-current assets held for sale		(33)	33	
TOTAL FINANCIAL ASSETS	**(8,755)**	**(8,629)**	**(126)**	**(7,935)**
TOTAL NET FINANCIAL DEBT	**34,039**	**35,701**	**(1,662)**	**35,701**

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

Bonds	*4,497*	*4,521*	*(24)*	*4,521*
Amounts due to banks, other financial payables and other financial liabilities	*684*	*1,072*	*(388)*	*1,074*
Finance lease liabilities	*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.

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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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)
Change in inventories	(74)	(16)	(58)
Change in trade receivables and net amounts due on construction contracts	748	79	669
Change in trade payables (*)	(1,077)	1,025	(2,102)
Other changes in operating receivables/payables	(110)	(869)	759
Change in provisions for employees benefits	233	(214)	447
Change in operating provisions and Other changes	(249)	169	(418)
Net operating free cash flow	**5,473**	**6,472**	**(999)**

(*) 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:

	2008		2007		
(millions of euro)		%		%	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)
Adjustments and Eliminations	*(47)*	*(0.9)*	*(10)*	*(0.2)*	*(37)*
Total	**5,365**	**100.0**	**5,370**	**100.0**	**(5)**

The percentage of capital expenditures to revenues went from 17.3% in 2007 to 17.8% in 2008. The increase of 483 million 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 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)	
NEW ISSUES			**Issue date**
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
REPAYMENTS			**Repayment date**
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
BUYBACKS			
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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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:

	12/31/2008		12/31/2007	
(billions of euro)	**Agreed**	**Drawn down**	**Agreed**	**Drawn down**
Term Loan - expiring 2010	1.5	1.5	1.5	1.5
Revolving Credit Facility - expiring 2014	8.0	1.5	8.0	1.5
Total	**9.5**	**3.0**	**9.5**	**3.0**

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

under the RCF, the bank has a commitment for 127 million 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)

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

(*) Including the carrying amount and nominal repayment amount of current liabilities, respectively, of 812 million 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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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**
At beginning of the year	**26,985**	**27,098**
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)
- Telecom Italia S.p.A.	*(1,609)*	*(2,766)*
- Other Group companies	*(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
At end of the year	**26,856**	**26,985**

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.

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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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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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)
Total operating revenues and other income	**30,514**	**31,419**	**(905)**	**(2.9)**
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)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**11,367**	**11,668**	**(301)**	**(2,6)**
Deprecation 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)
OPERATING PROFIT (EBIT)	**5,463**	**5,955**	**(492)**	**(8.3)**
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
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**2,897**	**4,324**	**(1,427)**	**(33.0)**
Income tax expense	(653)	(1,683)	1,030	(61.2)
PROFIT FROM CONTINUING OPERATIONS	**2,244**	**2,641**	**(397)**	**(15.0)**
Profit or loss from Discontinued operations/ Non-current assets held for sale	(29)	(186)	157	(84.4)
PROFIT FOR THE YEAR	**2,215**	**2,455**	**(240)**	**(9.8)**
of witch:				
* **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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Consolidated balance sheets

(millions of euro)	12/31/2008 (a)	12/31/2007 restated (1) (b)	Change (a-b)	12/31/2007
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Goodwill	43,891	44,171	(280)	44,420
Intangible assets with a finite useful life	6,492	6,750	(258)	6,985
	50,383	**50,921**	**(538)**	**51,405**
Tangible assets				
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
	15,662	**16,788**	**(1,126)**	**16,934**
Other non-current assets				
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
	4,897	**2,347**	**2,550**	**2,349**
TOTAL NON-CURRENT ASSETS (A)	**70,942**	**70,056**	**886**	**70,688**
CURRENT ASSETS				
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
Current assets sub-total	**14,684**	**17,352**	**(2,668)**	**16,737**
Discontinued operations/Non-current assets held for sale				
of a financial nature		33	(33)	
of a non-financial nature	9	735	(726)	
	9	**768**	**(759)**	
TOTAL CURRENT ASSETS (B)	**14,693**	**18,120**	**(3,427)**	**16,737**
TOTAL ASSETS (A+B)	**85,635**	**88,176**	**(2,541)**	**87,425**

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(millions of euro)	12/31/2008 (a)	12/31/2007 restated (1) (b)	Change (a-b)	12/31/2007
EQUITY AND LIABILITIES				
EQUITY				
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
TOTAL EQUITY (C)	**26,856**	**26,985**	**(129)**	**26,985**
NON-CURRENT LIABILITIES				
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
TOTAL NON-CURRENT LIABILITIES (D)	**40,356**	**41,263**	**(907)**	**41,278**
CURRENT LIABILITIES				
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
Current liabilities sub-total	**18,423**	**18.997**	**(574)**	**19,162**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
of a financial nature		701	(701)	
of a non-financial nature		230	(230)	
		931	**(931)**	
TOTAL CURRENT LIABILITIES (E)	**18,423**	**19,928**	**(1,505)**	**19,162**
TOTAL LIABILITIES (F=D+E)	**58,779**	**61,191**	**(2,412)**	**60,440**
TOTAL EQUITY AND LIABILITIES (C+F)	**85,635**	**88,176**	**(2,541)**	**87,425**

(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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Consolidated cash flows statements

(millions of euro)	**Year 2008**	**Year 2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit from continuing operations	2,244	2,641
Adjustment for:		
Depreciation and amortization	5,906	5,674
Impaiment 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)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)	**8,405**	**8,771**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of intangible assets on an accrual basis	*(2,514)*	*(2,253)*
Purchase of tangible assets on an accrual basis	*(2,851)*	*(3,117)*
Total purchase of intangible and tangible assets on an accrual basis	(5,365)	(5,370)
Change in amounts due to fixed asset suppliers	*(440)*	*242*
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
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)	**(6,874)**	**(4,398)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)	**(2,382)**	**(5,225)**
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)	**(10)**	**72**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**(861)**	**(780)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)	**6,204**	**6,960**
Net foreign exchange differences on net cash and cash equivalents (G)	(117)	24
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)	**5,226**	**6,204**

Consolidate financial statements - Telecom Italia Group

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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
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:		
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)
	6,204	**6,960**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:		
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		
	5,226	**6,204**

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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)	
(millions of euro)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**12/31/2008**	**12/31/2007 restated (1)**
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
Adjustments and Eliminations	(365)	(270)	(15)	(5)	8	52	(47)	(10)		
Totale consolidato	**30,158**	**31,013**	**11,367**	**11,668**	**5,463**	**5,955**	**5,365**	**5,370**	**77,825**	**82,069**

(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
DOMESTIC FIXED-LINE			
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
of which retail (thousands)	*6,754*	*6,427*	*5,600*
Virgilio page views during year (millions)	16,405	14,737	13,283
Virgilio average daily single visitors (millions)	2.5	2.1	1.8
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	109.3	106.8	105.7
- access and carrier network in optical fiber (millions of km of fiber)	3.9	3.8	3.7
Network infrastructure abroad:			
- European backbone (km of fiber)	55,000	55,000	51,000
- Mediterranean (km of submarine cable)	7,000	7,000	7,000
- South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on 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
DOMESTIC MOBILE			
Number of lines at year-end (thousands)	34,797	36,331	32,450
of which Prepaid lines (thousands) (1)	*28,660*	*30,834*	*28,080*
Clientele growth (%)	(4.2)	12.0	13.6
Churn rate (2)	23.6	16.4	18.9
Total outgoing traffic per month (millions of minutes)	3,054	2,766	2,443
Total outgoing and income traffic per month (millions of minutes)	4,316	4,052	3,730
Average monthly revenue per line (3)	20.8	22.2	25.6
BRAZIL			
Number of lines at year-end (thousands)	36,402	31,254	25,410
EUROPEAN BROADBAND (4)			
Broadband connections in Europe at year-end (thousand)	2,510	2,537	1,138
MEDIA			
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

(1) Excluding not human SIM.

(2) 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.

(3) 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.

(4) 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

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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:

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

Fixed accesses and mobile lines

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).

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Revenues

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

(millions of euro)	2008	2007	Change amount	Change %
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)	
TOTAL	**23,268**	**24,220**	**(952)**	**(3,9)**

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	Change %
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)
Total Retail Voice	**7,529**	**100.0**	**8,358**	**100.0**	**(829)**	**(9.9)**

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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

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

The total domestic retail Broadband access portfolio grew by 327,000 from year-end 2007 to 6.8 million at year-end 2008. Within the scope of this expansion of the customer base and consistent with the value strategy followed by the company for the entire year, Flat-rate packages now account for 77% of the total retail Broadband customer portfolio, up 677,000 from year-end 2007. The VoIP customer portfolio reached 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

	2008		2007		Change	
(millions of euro)		**%**		**%**	**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
Total Business Data	**1,720**	**100.0**	**1,673**	**100.0**	**47**	**2.8**

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%).

The Business Units of the Telecom Italia Group - Domestic

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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)
Total wholesale	**3,771**	**100.0**	**3,786**	**100.0**	**(15)**	**(0.4)**

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**
HISTORICAL EBITDA	**9,998**	**10,174**	(176)
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	
COMPARABLE EBITDA	**10,321**	**10,781**	**(460)**

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:

(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
Total employee benefits expenses	**3,638**	**3,282**	**356**

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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
HISTORICAL EBIT	**5,444**	5,751	(307)
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)	
COMPARABLE EBIT	**5,742**	**6,346**	**(604)**

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

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 sophistical 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:

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 11th 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 1st 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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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.

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

(*) Other notified operators under Decision 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 1st March 2009.

On 1st February 2008 Telecom Italia published the 2008 Reference Offer for bitstream services and the 11th 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 30th October 2007 and is under Authority s approval. On 31st 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 1st 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 1st January 2008.

Starting from 1st 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 1st 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 1st 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

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

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

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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
Retail	0.49 Euro/min.	0.24 Euro/min.	0.46 Euro/min.	0.22 Euro/min.	0.43 Euro/min.	0.19 Euro/min.
Wholesale	0.30 Euro/min.		0.28 Euro/min.		0.26 Euro/min.	

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 13th 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).

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.

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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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)			Change	
	2008 (a)	2007 (b)	2008 (c)	2007 (d)	amount (c-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
% of Revenues	*23.4*	*24.2*	*23.4*	*24.2*			
EBIT	189	150	507	399	108	27.1	27.1
% of Revenues	*3.6*	*3.0*	*3.6*	*3.0*			
Capital expenditures	1,348	865	3,612	2,305	1,307	56.7	
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).

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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;

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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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 BBNed 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	Change amount	%	% 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)	

GERMANY (HANSENET + TI DEUTSCHLAND)

(millions of euro)	2008	2007	Change amount	%
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 NETHERLANDS (BBNED)

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

Revenues

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
HISTORICAL EBITDA	**245**	**297**	(52)
Effect of change in scope of consolidation		7	

COMPARABLE EBITDA	**245**	**304**	(59)

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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
HISTORICAL EBIT	**(30)**	**122**	(152)
Effect of change in scope of consolidation		3	
Goodwill impairment loss	21		
COMPARABLE EBIT	**(9)**	**125**	(134)

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).

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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;

- 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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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

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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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	Change amount	Change %	Change % organic
Revenues	287	263	24	9.1	12.5
EBITDA	(59)	(55)	(4)	(7.3)	(7.3)
% of Revenues	*(20.6)*	*(20.9)*			
EBIT	(113)	(117)	4	3.4	(4.3)
% of Revenues	*(39.4)*	*(44.5)*			
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:

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

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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 restated	2007 restated	Change amount	Change %	% 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 Multimedia sector betters 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[(1)].

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.

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.

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

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**
HISTORICAL EBIT	**(37)**	**(66)**	**29**
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	
Industrial reconversion expenses		*6*	
Other expenses, net		*1*	
COMPARABLE EBIT	**(32)**	**(52)**	**20**

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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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, Inter-net 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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Review of financial and operating performance Telecom Italia S.p.A.

(millions of euro)	2008	2007	Change amount	Change %	% organic
Revenues	**22,025**	**22,847**	(822)	(3.6)	(3.6)
EBITDA	**9,577**	**9,730**	(153)	(1.6)	(4.2)
Margin on revenues	*43.5*	*42.6*	0.9 pp		
Organic margin on revenues	*44.9*	*45.2*	(0.3) pp		
EBIT	**5,166**	**5,435**	(269)	(4.9)	(9.5)
Margin on revenues	*23.5*	*23.8*	(0.3) pp		
Organic margin on revenues	*24.8*	*26.4*	(1.6) pp		
Profit before tax	**2,174**	**3,526**	(1,352)	(38.3)	
Profit for the year	**1,500**	**1,882**	(382)	(20.3)	
Capital expenditures	**3,471**	**3,948**	(477)	(12.1)	
Net financial debt	**39,916**	**40,142**	(226)	(0.6)	
Headcount at year-end (number)	**57,285**	**59,959**	(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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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)
Total non-organic (income) expenses	**319**	**600**	**(281)**

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)
Total acquisition of goods and services	**9,004**	**9,471**	**(467)**

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

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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
Total employee benefits expenses	**3,448**	**3,112**	**336**

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)
Total	**688**	**1,260**	**(572)**

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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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)
Total Non-organic (income) expenses	**294**	**600**	**(306)**

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)
Total	**(591)**	**236**	**(827)**

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);

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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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)
Total	**(2,401)**	**(2,145)**	**(256)**

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

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

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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
NON-CURRENT FINANCIAL LIABILITIES			
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)
	36,807	**39,332**	**(2,525)**
CURRENT FINANCIAL LIABILITIES [(1)]			
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
	7,553	**6,019**	**1,534**
TOTAL GROSS FINANCIAL DEBT	**44,360**	**45,351**	**(991)**
NON-CURRENT FINANCIAL ASSETS			
Financial receivables and other financial assets	640	582	58
	640	**582**	**58**
CURRENT FINANCIAL ASSETS			
Financial receivables and other financial assets	241	244	(3)
Cash and cash equivalents	3,563	4,383	(820)
	3,804	**4,627**	**(823)**
TOTAL FINANCIAL ASSETS	**4,444**	**5,209**	**(765)**
TOTAL NET FINANCIAL DEBT	**39,916**	**40,142**	**(226)**

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

Bonds	*608*	*1,272*	*(664)*
Amounts due to banks, other financial payables and other financial liabilities	*5,298*	*3,216*	*2,082*
Finance lease liabilities	*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.

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)
Change in inventories	(17)	27	(44)
Change in trade receivables and net amounts due on construction contracts	315	334	(19)
Change in trade payables (*)	(706)	765	(1,471)
Other changes in operating receivables/payables	(95)	(959)	864
Change in provisions for employees benefits	227	(195)	422
Change in operating provisions and Other changes	(233)	114	(347)
Net operating free cash flow	**5,597**	**5,868**	**(271)**

(*) 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.

***

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
REPAYMENTS		
Telecom Italia S.p.A. Floating Rate Notes Euribor 3M+ 0.22% maturing 2008	750	6/9/2008
BUYBACKS		
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	

NOTE

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.

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

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(millions of euro)	Carrying amount	Nominal repayment amount
Maturing by 12/31 of the year:		
2009 (*)	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
Total gross financial debt	**44,360**	**42,698**

(*) 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
At beginning of the year	**23,615**	**24,524**
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
At end of the year	**22,900**	**23,615**

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Financial statements   Telecom Italia S.p.A.

Income statements

(millions of euro)	**Year 2008**	**Year 2007**	**Change amount**	**%**
Revenues	22,025	22,847	(822)	(3.6)
Other income	263	298	(35)	(11.7)
Total operating revenues and other income	**22,288**	**23,145**	**(857)**	**(3.7)**
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)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**9,577**	**9,730**	**(153)**	**(1.6)**
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	°
OPERATING PROFIT (EBIT)	**5,166**	**5,435**	**(269)**	**(4.9)**
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
PROFIT BEFORE TAX	**2,174**	**3,526**	**(1,352)**	**(38.3)**
Income tax expense	(674)	(1.644)	970	(59.0)
PROFIT FOR THE YEAR	**1,500**	**1,882**	**(382)**	**(20.3)**

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Balance sheets

(millions of euro)	12.31.2008	12.31.2007	Change
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	40,013	40,013	
Intangible assets with a finite useful life	4,509	4,867	(358)
	44,522	**44,880**	**(358)**
Tangible assets			
Property, plant and equipment owned	11,643	12,208	(565)
Assets held under finance leases	1,369	1,442	(73)
	13,012	**13,650**	**(638)**
Other non-current assets			
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
	12,653	**12,392**	**261**
TOTAL NON-CURRENT ASSETS (A)	**70,187**	**70,922**	**(735)**
CURRENT ASSETS			
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)
Current assets sub-total	**10,359**	**11,634**	**(1,275)**
Discontinued operations/Non-current assets held for sale			
of a financial nature			
of a non-financial nature	9		9
	9		9
TOTAL CURRENT ASSETS (B)	**10,368**	**11,634**	**(1,266)**
TOTAL ASSETS (A+B)	**80,555**	**82,556**	**(2,001)**
EQUITY AND LIABILITIES			
EQUITY			
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)
TOTAL EQUITY (C)	**22,900**	**23,615**	**(715)**
NON-CURRENT LIABILITIES			
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)
TOTAL NON-CURRENT LIABILITIES (D)	**39,732**	**42,986**	**(3,254)**
CURRENT LIABILITIES			
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
TOTAL CURRENT LIABILITIES (E)	**17,923**	**15,955**	**1,968**
TOTAL LIABILITIES (F=D+E)	**57,655**	**58,941**	**(1,286)**

TOTAL EQUITY AND LIABILITIES (C+F)	**80,555**	**82,556**	**(2,001)**

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Cash flows statements

(millions of euro)	Year 2008	Year 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit	1,500	1,882
Adjustments for:		
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)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)	**6,566**	**7,078**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of intangible assets on an accrual basis	*(1,413)*	*(1,551)*
Purchase of tangible assets on an accrual basis	*(2,058)*	*(2,397)*
Total purchase of intangible and tangible assets on an accrual basis	(3,471)	(3,948)
Change in amounts due to fixed asset suppliers	*(336)*	*265*
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
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)	**(3,987)**	**(3,939)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
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)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)	**(2,840)**	**(4,463)**
AGGREGATE CASH FLOWS (D=A+B+C)	**(261)**	**(1,324)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	**3,465**	**4,789**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEARS (F=D+E)	**3,204**	**3,465**

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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
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:		
Cash and cash equivalents	4,383	5,208
Bank overdrafts repayable on demand	(918)	(419)
	3,465	**4,789**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:		
Cash and cash equivalents	3,563	4,383
Bank overdrafts repayable on demand	(359)	(918)
	3,204	**3,465**

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Reconciliation of consolidated equity

(millions of euro)	Profit for the year		Equity at 12/31	
	2008	2007	2008	2007
Equity and Profit for the year of Telecom Italia S.p.A.	**1,500**	**1,882**	**22,900**	**23,615**
Equity and profit for the year of consolidated companies net of the share attributable of Minority Interest	(124)	500	18,391	19,522
Carrying amounts of consolidated investments			(30,353)	(31,802)
Consolidation adjustments:				
- 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
Equity and Profit for the year attributable to equity holders of the Parent	**2,214**	**2,448**	**26,126**	**25,922**
Equity and Profit attributable to Minority Interest	1	7	730	1,063
Equity and Profit for the year of the consolidated financial statements	**2,215**	**2,455**	**26,856**	**26,985**

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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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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

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+[1] 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.

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

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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, 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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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[1] 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
Direct economic value generated		
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
d) Direct economic value generated (a+b+c)	**30,878**	**31,719**
Economic value distributed		
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
i) Economic value distributed (e+f+g+h)	**24,863**	**25,758**
Economic value retained (d-i)	**6,015**	**5,961**

(1) 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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(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
Employee costs	**4,220**	**3,822**

(millions of euro)	2008	2007
Acquisition of external goods and services	13,876	14,255
Other operating costs(*)	1,277	1,815
Change in inventories	(114)	(11)
Internally generated assets	(531)	(546)
Operating costs	**14,508**	**15,513**

(*) 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
Shareholders and providers of capital	**4,009**	**5,259**

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

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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 (*)
Fixed telephony	Consumer	7.98	7.14
	Business	7.59	6.56

	Customer segment	Satisfaction with network coverage (*)	Satisfaction with billing (*)
Mobile telephony	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 (*)
Fixed telephone	Consumer (1)	6.63	8.34	7.67
	Business (2)	6.09	8.13	7.23
Mobile telephone	Consumer (3)	7.50	8.74	8.16
	Business (4)	6.49	8.31	7.32

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

(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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Suppliers

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

Subject	2008 Targets	Status	2009 Targets
ISO 9001 and ISO 14001 certification	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.
E-community project	Development of an e-community project through the creation in the Supplier Portal of a multimedia environment for: publishing policies, standards, specific targets, and best practices, in the field of Sustainability; stimulate the start up of Sustainability projects; organise electronic voting campaigns for suppliers on our own Sustainability projects and those of the suppliers.	Achieved	Development and extension of the e-community to other groups of suppliers.
Supplier evaluation	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.
Controls on Telecom Italia suppliers	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	
Controls on suppliers of subsidiary companies	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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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 DGTVì (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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The commitments[1], 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.

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:

(1) A complete list of commitments may be obtained at www.agcom.it.

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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 it 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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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

		Telecom Italia S.p.A. 2008	Changes % 2008 vs 2007	Changes % 2008 vs 2006
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

		TI Group 2008	TI Group breakdown by BU (%) Domestic/BroadBand/ Brazil (*)	Media	Olivetti
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

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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Vehicles

			Changes %	
		Telecom Italia S.p.A. 2008	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 (*)	MJ	844,539,630	0.96%	-2.45%

(*) 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 breakdown by BU (%)		
		TI Group 2008	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

			Changes %	
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Total number of company vehicles	no.	21,448	-0.51%	-3.09%
Number of low-emission vehicles(*)	no.	21,097	-0.52%	-3.11%
Total distance travelled	km	313,946,775	0.63%	-0.12%

(*) Vehicles fuelled by unleaded petrol, eco-diesel, bludiesel, GPL (meeting the Euro4 standard or higher), electricity or fuelled by other combustibles with comparable or lower emissions.

Number of vehicles and distance travelled (*)

			TI Group breakdown by BU (%)		
		TI Group 2008	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%

(*) 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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Electricity consumption by Telecom Italia S.p.A and the Group as a whole is shown below.

Purchased or produced energy

			Changes %	
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Electrical energy from mixed sources (*)	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%

(*) 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^3 3.39 millions.

Purchased or produced energy

			TI Group breakdown by BU (%)		
		TI Group 2008	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[(1)], with reference to Scope1 (heating systems, vehicle propulsion and co-generation[(2)]) and Scope2 (acquired electrical energy[(3)]).

Atmospheric emissions

		Telecom Italia S.p.A. 2008	Changes % 2008 vs 2007	2008 vs 2006
Emissions of CO_2 from purchased electrical energy produced from mixed sources	Kg	842,189,133	-2.00%	0.12%
Emissions of CO_2 from co-generation	kg	5,100,000		
Emissions of CO_2 produced for heating	Kg	54,977,728	-4.96%	-6.99%
Emissions of CO_2 produced for vehicles	Kg	61,451,387	2.29%	-0.39%
Total emissions of CO_2	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_2 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_2/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_2/kWh, and which is held to be more accurate.

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Atmospheric emissions

			TI Group breakdown by BU (%)		
		TI Group 2008	Domestic/ BroadBand/ Brazil	Media	Olivetti
Emissions of CO_2 from purchased electrical energy produced from mixed sources	Kg	902,476,843	98.35%	1.29%	0.36%
Emissions of CO_2 from co-generation	Kg	5,100,000	100%		
Emissions of CO_2 produced for heating	Kg	63,050,162	91.48%	0.26%	8.26%
Emissions of CO_2 produced for vehicles	Kg	98,059,571	97.99%	0.64%	1.37%
Total emissions of CO_2	Kg	1,068,686,576	97.91%	1.17%	0.92%

For indirect consumption relating to the GHG Protocol s Scope3, atmospheric emissions by Telecom Italia S.p.A. are estimated to be:

68 Million kilogrammes of CO_2 for travelling between home and work;

16 Million kilogrammes of CO_2 in business travel by air;

4 Million kilogrammes of CO_2 relating to electricity generation, controlled by suppliers, at the Radio Base Stations;

40 Million kilogrammes of CO_2 relating to the dispersal of hydrochlorofluorocarbon (HCFC) gases.

Climate change

The approach pursued by the Group in fighting climate change is based on action on two levels: reduce direct and indirect emissions of greenhouse gases; encourage and support the dematerialisation of goods and services.

As regards the reduction of emissions in 2008, over and above energy efficiency measures and the promotion of renewable energy through experimentation and acquisitions, the following actions have been taken:

the modernisation of the company s car fleet;

the modernisation of the thermal power stations.

As regards dematerialisation, the Group supplies products and services that permit the elimination or reduction of greenhouse gases generated by the transport of people or objects. Some examples follow:

video and audio conferencing services;

the use of on line invoicing and payments;

TLC services aiding tele-working;

- tele-medicine services;
- infomobility systems.

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Water

Water consumption

		Telecom Italia S.p.A. 2008	Changes % 2008 vs 2007	Changes % 2008 vs 2006
	m^3	4,542,774	9.53%	7.64%

Water consumption

			TI Group breakdown by BU (%)		
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
	m^3	5,884,493	82.83%	0.42%	16.75%

Paper

Paper for office use

		Telecom Italia S.p.A 2008	Changes % 2008 vs 2007	Changes % 2008 vs 2006
Non-recycled paper purchased	kg	311,305	-20.48%	-59.83%
Recycled paper purchased	kg	356,139	7.44%	4,516.19%
Total paper purchased	kg	667,444	-7.68%	-14.72%

Telecom Italia S.p.A. has obtained the reduction in paper acquisition through consumption containment initiatives. Buying recycled paper in place of wood fibre paper for office use was begun at Telecom Italia S.p.A. at the end of 2006: this explains the limited quantity of acquisitions in that year (7,715 kg) and the respective, notable, percentage increase compared to 2008.

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Paper for office use

			TI Group breakdown by BU (%)		
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
Non-recycled paper purchased	kg	404,952	94.32%	4.81%	0.87%
Recycled paper purchased	kg	466,105	99.33%	0.67%	
Total paper purchased	kg	871,057	97.00%	2.60%	0.40%

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Waste

The data shown in the table refer to the quantity of waste consigned[1] and legally recorded [2].

Waste consigned (*)

			Changes %	
		Telecom Italia S.p.A 2008	**2008 vs 2007**	**2008 vs 2006**
Hazardous waste	kg	5,120,123	75.73%	80.35%
Non hazardous waste	kg	10,784,584	-16.92%	39.78%
Total quantity of waste	kg	15,904,707	0.07%	50.70%
Waste for recycling/reclamation	kg	14,106,145	-9.33%	40.64%
Ratio between recycled/reclaimed waste and total waste		88.69%	-9.39%	-6.67%

(*) The data does not include telephone poles.
The increase in hazardous waste at Telecom Italia S.p.A. is due to the disposal of lead batteries and excavated earth and rocks from reclamation.

The increase in excavated earth and rocks caused a diminution of the ratio between the quantity of waste sent for recycling/reclamation and the total waste consigned.

Waste consigned (*)

		TI Group breakdown by BU (%)		
	TI Group 2008	**Domestic/Broadband/ Brazil**	**Media**	**Olivetti**
kg	19,603,617	92.73%	0.82%	6.45%

Following the Agreement Programme for managing obsolete wooden telephone poles, signed in 2003, upon the favourable opinion of the autonomous State-Region-Province Conference, with the Ministry for the Environment and Protection of the Territory, and production and reclamation companies, de-commissioning also continued in 2008 with the substitution or elimination of 152,060 poles. Regarding electrical and electronic apparatus waste (RAEE), regulated by the Decree Law 151/05, Telecom Italia S.p.A. acts in some cases as producer and in all cases as distributor of specified equipment and is responsible for organising the management of its end-life cycle, as far as the aspects for which TI S.p.A. is involved.

(1) By waste consigned is meant waste delivered to carriers for recycling or reclamation or disposal. From checks carried out in 2007 in the field of technological waste on around 6,000,000 kg of waste delivered to carriers for recycling and reclamation, 97% was recycled and reclaimed effectively while the remaining 3% was disposed of.

(2) There may be slight variations in the situation as at December 31 until the following March 30, in so far as the source for the data are the records of loading and unloading of waste that are made once the actual weight has been checked at destination. The information was supplied to the producer of the waste within 3 months of the consignment and this explains the possible variations in the data.

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In expectation of the enactment (still incomplete) of the decrees, implemented under the cited Decree Law, that are required to make the procedure operational, Telecom Italia S.p.A. has set up a working party with the aim of focusing on certain points and preparing for the management of that area. Membership of the consortium that is specialised in managing the end-life cycle of equipment has been completed, the processes of collection and selection of the RAEE for each of the direct sales channels and appropriate clauses on the subjects of RAEE and RoHS[1] have been inserted in the conditions for standard purchase contracts.

Electromagnetic and noise emissions

The Group carries out all actions necessary to optimise the level of emissions from Base Transceiver Stations. In 2008, the goal of reducing the emissions from the SRBs, Base Transceiver Stations-GSM, during periods of maximum voice traffic, has been achieved and exceeded, with a consequent reduction in the intensity of the electromagnetic emissions. The Group undertakes the systematic monitoring of the levels of CEM in the installations of La7, MTV and TIMB (Telecom Italia Media Broadcasting) in order to guarantee that the legal limits are respected and that high safety standards are maintained.

Similar attention is paid to emissions from mobile handsets operating on the GSM bands 900Mhz, DCS 1800Mhz and UMTS. In 2008, 100% of technologically-innovative cellphone models, widely distributed throughout Italy, and 25% of Brazilian models, have been submitted for SAR (Specific Absorption Rate) rating with the aim of guaranteeing that the level of emissions from equipment respects the limits established by national and Community regulations.

In the area of the reduction of noise pollution, checks have been carried out on noise emissions by the company s plant and equipment, and 96 sites, where critical levels were discovered, have been rectified.

Product responsibility

To improve the company s Product Stewardship profile, products/services marketed by Telecom Italia S.p.A. are also examined under the following criteria:

- health and safety of consumers;
- labelling of products and services;
- marketing communications;
- respect for privacy;
- conformity with applicable regulations;
- environmental impact of the product.

Marketed products are subject to a technical test aimed at ensuring their conformity with European Directives and the National Laws of Implementation. Among the main regulations are:

- the EU regulation on the protection and safety of customers in using the equipment;

- the RoHS regulation which prohibits the use of certain substances in electrical and electronic equipment;

- the RAEE regulation on the management of product end-life cycle.

Quality tests are conducted on products to check they comply with the environmental and safety requirements agreed with suppliers. See the preceding paragraph for checks conducted on mobile phone handsets.

During 2008, the methodology of Life Cycle Assessment (LCA) was applied to 22 products intended for marketing (cell phones, fixed telephones, fax machines and printers) under the auspices of the Green Procurement project.

The LCA approach allows, amongst other things, the evaluation of the environmental and energy burden of products/services during their entire life cycle.

(1) European Directive 2002/95/EC on the restrictions on the use of prescribed hazardous substances in electrical and electronic machinery (Restriction of Hazardous Substances Directive).

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The community

Contributions made by the Telecom Italia Group to the Community during 2008, calculated according to the guidelines of the London Benchmarking Group (LBG), amounted to around 36 millions of euro (32 millions of euro in 2007), equal to 1.25% of the Pre-Tax Profits.

The calculation of the contributions was carried out using management data, in part based on estimates. More than 100 major international companies subscribe to the LBG, which was founded in 1994 and represents the gold standard at the global level in the classification of voluntary contributions by companies in favour of the Community.

In line with the LBG model, in order to measure and represent the Group s commitment to the Community, the contributions paid out have been subdivided into 3 categories (Charity, Investments in the Community, Initiatives in the Community), adopting the usual pyramid diagram[1].

The Telecom Italia Foundation

The Telecom Italia Foundation was established during 2008, and became operational in 2009. The Foundation, one of the manifestations of Telecom Italia Group s Sustainability strategy in relation to the Community, is aimed at strengthening the Group s commitment in favour of the communities in which it operates by promoting ideas and projects for the improvement of people s quality of life. The Foundation is active:

- in the social field, developing educational and support projects dedicated to the least protected and most disadvantaged categories and bands of the population;
- in the development of projects dedicated to education, training and scientific studies;
- in the protection of the artistic and historical heritage by developing innovative ways and means of enjoying and disseminating knowledge.

Research and Development

In addition to the TILab, Telecom Italia Group s research and development activities are carried out by the Operational Units and businesses (Network, Market, Information Technology, Security) and within the Group s companies.

TILab is the department whose remit is the supervision of technological innovation for the Group, scouting for new technologies and engineering operations for services and network platforms. The work carried out by TILab is the outcome of a strategic partnership with the main manufacturers of telecommunications equipment and systems, and with centres of excellence in research at the most highly qualified national and international academic institutions. In 2008, 29 new collaborative projects were begun with as many universities, covering research into various types of technology, encryption algorithms, services concepts and new paradigms of communication.

(1) The LBG model requires the inclusion in the first three levels of the pyramid of those activities in which the spirit of charity is to the fore, while leaving to companies the option of reporting activities more closely connected to the core business (Business Basics) separately. Telecom Italia, in accordance with these requirements, has not included the amount for Business Basics in the overall calculation of the contribution.

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Opportunities to generate competitive advantage and create market value for Telecom Italia Group have been pursued through the strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at the development of the company s assets in patents rights; in this context, during 2008, 39 new applications for patents were registered. The principle activities carried out by TILab were:

- in the field of mobile phone access, solutions based on femtocells have been developed which represent an innovative way of providing radio access, based on an increased number of cells, greatly reduced in size. TILab, moreover, confirmed its role as a driver of technological innovation in mobile broadband also thanks to experimentation with the HSPA technology at the laboratories in Turin.

- In the field of widening access to broadband, the identification of solutions capable of supporting the development of optic fibre access under the various scenarios available in the coming years continued, with terminals in the customer s business premises, office or home.

- Innovations in the Home Network and Terminals for the always connected domestic broadband network have seen the development of solutions that share the different flows of multimedia content through technologies based on the main international standards.

- Within the scope of services based on converging content and applications, the development of innovations for specific groups of clients has continued. In particular, the e-tourism solutions have been enhanced with an application that allows access to and visualisation of the tourist portal in a dynamic way, based on the profile of the terminal used. Furthermore, the provision has been enriched with Web2.0 functionality, such as the generation and contextualised sharing of photos and videos.

- In the field of video and multimedia services, the Tim SKY Mobile TV/Radio has been launched allowing customers to enjoy 10 SKY channels and 25 radio stations for 2G and 3G users, with the conversion of the radio/TV channels from ON AIR DVB broadcast on IP format to 3GPP on IP;

- the Group s Technological Plan 2009-2011 has been drawn up, tracing the main innovations in prospect for the next three years.

- On the international level, TILab has pledged a substantial commitment to the task of standardisation, by influencing the manufacturers road map. In 2008, on the initiative of Telecom Italia, the Energy Efficiency Inter Operator Collaboration Group was launched. This is an ad hoc working group formed by 18 of the principle global TLC Operators with the aim of maximising energy efficiency in the telecommunications sector, interceding on standards and proposing actions to suppliers.

Finally, an outline agreement on development was jointly drawn up between the Telecom Italia Group and the Telefonica Group. The agreement provides for technical collaboration in carrying out specific research projects with Telefonica I+D, a Telefonica Group company involved in research and development. The subjects of the first projects are the following: Wireless Sensor Network Applications, Context Awareness/Ambient Intelligence Platforms & Services, Innovative Services and Applications Z-SIM Enabled, Connected Car, 3D Multimedia Technologies, Software Defined Radio, e-Tourism, and the observation and analysis of the main trends in technological innovation. The research and development activities carried out by the Operational Units and businesses of Telecom Italia have been directed towards developments that have been carried out internally, or externally by outside suppliers in order to create:

- software products dedicated to systems for managing both marketing offers and activities on behalf of customers (Business Support Systems) and for managing the functioning of networks (Operational Support Systems), Security and other IT services;

testing; specifications for tenders; network architecture studies.

The main activities were:

- the development of a new Customer Centric platform CRM Business , for the commercial management of the clients SOHO, SME, Enterprise and Top;
- the evolution of the digital platform in support of business and the implementation of new services for the clients Consumer and Business, & Top. In particular, work has been aimed at supporting the following offers: Family offer , Friend & Family , MTV (main functionalities), IPTV; Alice CASA (naked), Alice Total Security , Alice DATA KIT (up-selling fixed-mobile), TIM Affare Fatto al Lavoro , Office On Hand , Alice Affare Fatto su VoIP, Alice Business (naked).

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Human resources

Headcount and changes

Telecom Italia Group

Headcount of personnel at December 31, 2008, divided as follows:

(units)	12/31/2008	12/31/2007	Changes
Italy	63,521	65,591	(2,070)
Abroad	13,229	14,509	(1,280)
Total personnel on payroll	**76,750**	**80,100**	**(3,350)**
Leased personnel	1,075	1,969	(894)
Total personnel	**77,825**	**82,069**	**(4,244)**
Non-current assets held for sale		1,360	(1,360)
Total	**77,825**	**83,429**	**(5,604)**

Excluding personnel concerned with Non-current assets held for sale (Liberty Surf Group) and leased personnel, the Group s workforce has been reduced by 3,350 units compared to December 31, 2007. The changes can be itemized as follows:

- the departure of Entel Bolivia (-1,475 units) from the area of consolidation and the sale of the activities related to On Air company strand by MTV Italia (-14 units);

- net turnover down by 1,861 units, as specified for individual Business Unit:

(units) *	Recruited	Departed	Net change
Domestic	626	(2,558)	(1,932)
Brazil	3,650	(3,395)	255
European BroadBand, Olivetti, Media and Others	641	(825)	(184)
Turn over	**4,917**	**(6,778)**	**(1,861)**

* Excluding 26 units due to transfers within the Group

Telecom Italia S.p.A.

(units)	12/31/2008	12/31/2007	Changes
Total personnel on payroll	56,650	58,686	(2,036)
Leased personnel	635	1,273	(638)
Total	**57,285**	**59,959**	**(2,674)**

At December 31, 2008, Telecom Italia S.p.A personnel on payroll numbered 56,650 units. Compared to December 31, 2007, an overall reduction of 2,063 units was recorded, due to:

- the balance of 139 units moving to other Group Companies;

net turnover down by 1,897 units, as specified:

(units)	Recruited	Departed	Net change
Telecom Italia S.p.A. turn over	220	(2,117)	(1,897)

Tim Brasil Group

(units)	12/31/2008	12/31/2007	Changes
Tim Brasil Group - Total	10,285	10,030	255

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The headcount of personnel as of December 31, 2008 was equal to 10,285 units. Net turnover is detailed below:

(units)	Recruited	Department	Net change
Tim Brasil Group - Turn over	3,650	(3,395)	255

Excluding leased personnel, the number of personnel operating in Italy is equal to 82.8% of the Group total and can be broken down as follows:

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The distribution of personnel by geographic area, and recruitment undertaken by the Group (excluding leased personnel), are detailed below:

The number of personnel operating in TIM Barsil Group is equal to 13.4% of the Group total and can be broken down as follows:

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Gender Balance

In 2008, the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%, and, in middle management, the proportion was 26%.

In 2008, the percentage of women holding senior management positions in Tim Brasil was approximately 6%, and, in middle management, the proportion of the total was 24%. In Tim Brasil, the number of women employed by the company rose from 3,263 in 2003 (54% of the total) to 5,874 in 2007 (58% of the total), and to 6,220 (60% of the total) in 2008.

Welfare

In Italy, certain initiatives are managed jointly with the representatives of employees, others directly by the company. Among the former is the integrated health care for employees, pensioners and their families, managed by ASSILT (more than 200,000 clients) and, for senior managers, by ASSIDA (13,400 clients). CRALT, the Workers Recreational Club of Telecom Italia Group, organises sporting, tourism and cultural initiatives for more than 51,000 members.

Among the latter are the Time Saving Services for employees (agency services, laundry and shoe repairs, fitness areas and newspaper kiosks), summer camps for children, 9 nurseries (of which 2 were started this year), company loans (for example to buy or restore houses and for new parents). In Tim Brasil, programmes have been launched in gymnastics, physical wellbeing and relaxation in various company premises. The company health assistance programme covers 18,500 people. The implementation of the Private Social Security Plan for all employees was begun in 2006, and by the end of December, 2008, the rate of enrolment had reached 88% of those eligible.

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Development

In 2008, work continued to implement Individual Development Plans aimed at a key resource group among senior and middle managers, and young people with high potential. This has taken the form of the evaluation, development and retention of these resources, promoting their growth over the medium term.

Recruitment

The Group s commitment to the creation of expertise has been met through the financing of Master s courses and the introduction, through internships, of new graduates in various disciplines: technical, financial and legal. In 2008, around 169 trainees, students and graduates, were welcomed into the company for a financial investment of around 500,000 euros.

In addition, the contribution of the Group to the training of young people has also taken the form of collaboration with the main Italian universities, through the sponsorship of study bursaries, the presence in lecture halls of company managers, participation in workshops and research projects, and attendance at 12 job meetings across Italy for a total investment of around 2 million euros. Tim Brasil has favoured the recruitment during 2008 of personnel who were already providing services within the company. Among the recruitment programmes adopted are:

- Nosso Aprendiz , promoting the training of young people aged between 16 and 24 for work in the Call Centres or in customer reception in company outlets. A course of administrative training has been launched for juveniles to prepare them to enter the world of work. The programme, begun in 2008, has enrolled 144 participants;

- The Estagio Sem Fronteiras , a programme providing young university and technical students with the opportunity to carry out work experience in Tim Brasil, offering them a chance to develop, but also giving them direct access to the jobs market, given that a high percentage (33%) of interns are recruited by Tim Brasil.

Training

In the Telecom Italia Group, training activities undertaken in 2008 amount, for personnel in Italy, to around 2 million hours (in classrooms, on-line, on-the-job training) as the following table shows, and around 25 million euros in direct costs, excluding the cost of the work and travel expenses. In all, 71.5% of the Group s personnel have participated in at least one training session.

Hours and participants by professional category

	CLASSROOM, ON LINE, TRAINING ON THE JOB - TOTAL				CLASSROOM, ON LINE				TRAINING ON THE JOB		
	HOURS				HOURS				HOURS		
	TOTALS	PER CAPITA	PARTICIPANTS	COVERAGE	TOTALS	PER CAPITA	PARTICIPANTS	COVERAGE	TOTALS	PER CAPITA	PARTICIPANTS
	2,056,783	**32.7**	**44,955**	**71.5**	**988,533**	**15.7**	**34,905**	**55.5**	**1,068,250**	**17.0**	**25,993**
gers	30,012	27.0	826	74.3	29,988	27.0	826	74.3	24	0.0	3
gers	92,961	20.8	2,777	62.3	92,573	20.8	2,764	62.0	388	0.1	33
Vorkers	1,933,810	33.8	41,352	72.2	865,972	15.1	31,315	54.7	1,067,838	18.6	25,957

Activities fall into two areas: the first concerning cross-Group projects, the second in training aimed at ensuring and upgrading business and technological expertise.

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Internal communication

The Internal Communication Department has pursued and reinforced its goal of paying ever greater attention to listening to and valuing its employees, encouraging them to participate in company events.

In May, the sixth edition of the staff attitude survey was held, which involved Group personnel in Italy and abroad. On a scale of 1 to 10, the level of satisfaction expressed was 6.35 in Italy, 5.8 in Germany and 7.36 in Brazil.

There were numerous activities and projects aimed at integration conducted by the Group in Italy during 2008, among them:

Comunico.IO, to give employees with hearing impairment a standard communication kit;

the noi.perloro (us-for them) community, which is involved in volunteer social work (solidarity banquets at main offices);

the Archimedes project, a competition of ideas with four presentational road shows plus the prize-giving, involving 900 employees;

the 2008 edition of the competition Have a story published in noi.magazine, the Group s internal magazine, with prizes for four of the more than 700 stories received.

Health and Safety

During 2008, at Group level, certain specific projects/initiatives were carried forward or initiated:

a project for wellbeing in the call centres;

the Drive Safely project;

the safety at work awareness campaign;

the assessment of exposure to biological and physical agents;

safety management in Base Transceiver Stations, shared with other operators;

the up-dating of company risk evaluation documentation;

health supervision interventions;

micro-climatic measurement in the call centres;

measurement of noise pollution;

evacuation rehearsals;

the up-dating of the emergency aid operational plans.

In all, workers exposed to specific risks, those responsible for emergency management, those who work at video terminals, newly recruited staff and/or those whose duties have changed, have benefited from 164,782 hours of training in the field of health and safety.

Accidents

The data on accidents regarding Telecom Italia S.p.A. are presented below, in comparison with the 2007 data.

	2008	**2007**
Number of accidents	932	969
Severity index (*)	0.45	0.24
Frequency rate (*)	9.77	10.28
Average duration in hours	127.31	136.01
Unproductiveness rate (*)	1.24	1.40
Accidents per 100 workers	1.63	1.62

(*) The indices of severity, frequency and unproductiveness are respectively:

the number of conventional working days lost in the year for every thousand hours worked;

the number of accidents per every million hours worked;

the number of hours lost due to accidents for every thousand hours worked.

The increase in the index of severity is due to three fatal accidents that occurred during 2008, of which one was work-related and two unrelated to work (road accidents).

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Industrial relations

The year 2008 was filled with meetings with union representatives and the results from negotiations.

On May 14, 2008, the Company signed, with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the National Coordinating Committee of the RSU and, on May 15, 2008, with UGL Telecommunications, an agreement defining the new Productivity Bonus as valid until December 31, 2011.

This agreement came within the scope of wider company negotiations that saw the signing of the renewal of the company s regulations of reconciliation with the National Collective Work Contract. At the end of a broader phase of discussions in the headquarters of the joint Company-Union Commissions, on May 14, 2008, an agreement was reached with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the National Coordinating Committee of the RSU on the subject of wellbeing in the call centres. Following the start, on June 26, 2008, of the mobility procedure under law 223/1991 for a total of 5,000 workers across the entire national territory, the relative agreements were reached, on September 19, 2008 at the Ministry of Labour, with SLC-CGIL, FISTEL-CISL, UILCOM-UIL, UGL Telecomunicazioni, CISAL Comunicazione, SNATER TLC and the RSUs.

These agreements allow the mobility procedure, before December 31, 2010, for a maximum number of 5,000 workers, according to the primary criterion of the maturation of the pension requirements during the period of mobility payments, and for those workers who confirm their willingness to accept this option. The Company will furthermore guarantee workers an amount no less than the net difference between 90% of their monthly wages and the mobility payment, in accordance with article 7 of the Law 223/91.

Within the scope of the overall agreement, the Company undertakes for the two years, 2009 2010, to proceed with the placement of 600 workers and, from January 1st, 2009, to make permanent the contracts of 300 leased workers presently in force. Finally, 1,600 workers at Telecontract Centre S.p.A. will be upgraded from 50% part-time working to 75%, during the period 2009 2010. On October 28, 2008, a further agreement was signed with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the competent RSUs on mobility procedures under law 223/1991 for Telecom Italia Sparkle S.p.A. The agreement allows a maximum of 65 mobility placements during the period 2008-2010.

On December 11, 2008, also Olivetti S.p.A. and Olivetti I-Jet S.p.A. have started with FIM-CISL, FIOM-CGIL, UILM-UIL and the competent RSUs, the specific mobility procedures under law 223/1991, involving 80 and 25 employees, respectively.

Following the presentation to the financial community of the Strategic Plan 2009 2011, on December 10, 2008, the Plan was presented to the leadership of the Union Organisations and follow-up meetings have been scheduled to evaluate the organisation s development and the implications for employment. Three agreements have been negotiated by Tim Brasil with the two federations that represent the entire workforce, FITTEL and FENATTEL, concerning:

- economic and social conditions;
- the company s profit-sharing programme;
- the hourly rate of pay. On the basis of this agreement, overtime hours may be repaid by a reduction in the normal working hours or in days off during the three months following the completion of the overtime; after that period, employees will be paid for the outstanding overtime.

In 2008, the reduction of the working week from 44 to 42 hours in 2009, and 40 hours a week in 2010, was agreed in negotiations.

Finally, wages will be increased by 6% from July, 2009.

Performance Share Granting

In the course of 2008, a plan was begun for awarding shares at no cost, dependent on the attainment of pre-established performance goals pegged to Telecom Italia s Total Shareholder s Return (TSR TI) according to two criteria, absolute (on which 20% of the full award depends) and relative (80% of the full award) as measured against variations in the share prices of European telecommunications companies on the TLC sector of the Dow Jones Stoxx index. The Plan will last for three years, from July 1st, 2008, to June 30th, 2011, with maturation of share allocation rights for Top Management at the end of the period.

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Stock options

The instrument of stock options has been used within the Telecom Group in order to retain and offer long term incentives to members of management.

In the course of 2008, a new Stock Option Plan was begun within Telecom Italia S.p.A. (Top Plan 2008 , reserved to the President and the Chief Executive Officer), which was approved by the Shareholders Meeting on April 14, 2008, and whose implementation was decided by the Board of Directors at their meeting of April 15, 2008. The essential elements of the Stock Option Plans of Telecom Italia and Telecom Italia Media are summarised in the Note Further information Telecom Italia Group s Stock Option Plans in the TI Group Annual Report.

Shareholders

Financial communication

In 2008, the most important event in the area of financial communication was the updating of the strategic plan (London, December 3, 2008) during which Telecom Italia presented to the Financial Community its strategies and goals for the three years, 2009 2011.

Furthermore, the company organised more than 200 formal meetings with the market (financial analysts, institutional and individual investors) consisting of conference calls, road shows and attendance at sector conferences, in addition to the regular contacts.

Of particular importance was the financial communication aimed at investors with a particular focus on Socially Responsible Investing (SRI). One road show was aimed specifically at SRI investors and was staged in two European markets (Paris and Frankfurt).

With regard to the relationship with individual shareholders (retail) Telecom Italia s strategy is aimed at widening the channels of financial communication, in order to respond in an effective way to the ever growing number of requests for information and speedy updates on the Group. The central tool in this strategy is the Shareholders Club, TI Alw@ys ON .

Safeguarding privacy and data protection

In 2008, the Group s guidelines were up-dated to bring operational procedures and information systems in conformity with privacy requirements in handling customer, or ex-customer, information. A review was held of the Group s policies on the self-evaluation of the security measures that have been adopted in the treatment of personal data entrusted to third parties (suppliers, consultants etc.) and new guidelines have been issued for the treatment of personal data in computer processing.

A wide-ranging project has been launched aimed at further raising the level of data protection in telephone and data traffic, with respect also to the specific recommendations of the Privacy Guarantee for providers of electronic communication services. The dissemination of a privacy culture throughout the company has continued with dedicated training sessions. The application of the regulations is monitored through a control system based on the procedure of periodic self-evaluation, by those responsible for handling personal data, and sample testing. In 2008, monitoring was focused particularly on the sales network, on Customer Care activities and debt recovery, and on several subsidiary companies. Furthermore, the Group s Auditing and Compliance Company has carried out several checks at company and third party premises (for example, suppliers of software services) on the adoption of the security measures for the protection of personal data. Finally, in accordance with rule 26 of appendix B (Technical Regulations on minimum security measures) of the Privacy Code, Telecom Italia declares it has drawn up the Data Security Planning Document (DPS) for 2008.

Risk Management

Beginning in 2003, Telecom Italia Group has used CRSA (Control & Risk Self Assessment) as the governance instrument of company risk management through which the identification, assessment and management of operational risks is achieved. The CRSA

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is based on the self-assessment of risk by management, with the aid of qualitative and quantitative evaluations and parameters, followed by the identification of the existing control systems and any proposals for their improvement. New strategic directions and objectives for the Group were defined in 2008 for the three years 2009-2011.

Alternative performance measures

In this Report on Operation, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A., for the year ended December 31, 2008, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in other periodical financial reports (half-yearly financial report at June 30 and quarterly reports at March 31 and September 30) should, however, not be construed as a substitute for those required by IFRS.

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

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

Profit before tax from continuing operations

+ Finance expenses

- Finance income

+/- Other expenses (income) from investments

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

EBIT- Operating profit

+/- Impairment (reversals) losses on non-current assets

+/- Losses (gains) on disposals of non-current assets

+ Depreciation and amortization

EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and imapirment reversals (losses) on non-current assets.

Organic change in Revenues, EBITDA and EBIT: These measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the level of the Business Units) and the Parent. The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Report as well as an analysis of the major non-organic components for the years 2008 and 2007.

Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. Two schedules are presented in this Report that show the amounts taken from the balance sheet and used to calculate the Net Financial Debt of the Group and the Parent, respectively.

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Equity investments held by Directors, Statutory Auditors, General Managers and Key Managers

In accordance with article 79 of the regulation for the introduction of Legislative Decree 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999, the following table presents the equity investments held in Telecom Italia S.p.A. and in the companies which it controls, based upon communications received and other information acquired from all the individuals who, during 2008 or a part of that year, have held the post of director, statutory auditor, general manager and key manager in Telecom Italia S.p.A.

The data provided in respect of key managers is an aggregate.

Name	Company	Class of shares	Number of shares held at end of 2007 (or at date of appointment)	Number of shares purchased in 2008	Number of shares sold in 2008	Number of shares held at end of 2008 (or as of the date on which the individual left post, if before)
BOARD OF DIRECTORS						
Gabriele GALATERI DI	Telecom Italia S.p.A.	Ordinary	=	176,000	=	176,000
GENOLA		Savings	=	88,000	=	88,000
Franco BERNABE	Telecom Italia S.p.A.	Ordinary	18,000(1)	150,000	=	168,000(2)
		Savings	30,000(1)	150,000	=	180,000(3)
Cesar Izuel ALIERTA	=	=	=	=	=	=
Paolo BARATTA	Telecom Italia S.p.A.	Ordinary	=	345,000(1)	=	345,000(1)
Tarak BEN AMMAR	=	=	=	=	=	=
Roland BERGER	Telecom Italia S.p.A.	Ordinary	=	562,500	=	562,500
		Savings	=	700,000	=	700,000
Elio CATANIA	=	=	=	=	=	=
Jean Paul FITOUSSI	=	=	=	=	=	=
Berardino LIBONATI	Telecom Italia S.p.A.	Ordinary	=	373,100	=	373,100
Julio LINARES LOPEZ	=	=	=	=	=	=
Gaetano MICCICHE	=	=	=	=	=	=
Aldo MINUCCI	Telecom Italia S.p.A.	Ordinary	2,595	=	=	2,595
Gianni MION	Telecom Italia S.p.A.	Ordinary	27,000(1)	=	=	27,000(1)
		Savings	35,000(1)	=	=	35,000(1)
Renato PAGLIARO	Telecom Italia S.p.A.	Savings	60,000	=	=	60,000
Luigi ZINGALES	Telecom Italia S.p.A.	Ordinary	=	58,000	=	58,000
Gilberto BENETTON	Telecom Italia S.p.A.	Ordinary	1,946,250	=	=	1,946,250
		Savings	990,000	=	=	990,000
Stefano CAO	=	=	=	=	=	=
Renzo CAPRA	Telecom Italia S.p.A.	Ordinary	38,308	=	=	38,308
Domenico DE SOLE	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia S.p.A.	Ordinary	55,985(4)	=	=	55,985(4)
Cesare Giovanni VECCHIO	=	=	=	=	=	=
BOARD OF STATUTORY AUDITORS						
Paolo GOLIA	Telecom Italia S.p.A.	Ordinary	1,437	=	=	1,437
Enrico Maria BIGNAMI	=	=	=	=	=	=
Salvatore SPINIELLO	=	=	=	=	=	=
Ferdinando SUPERTI FURGA	=	=	=	=	=	=
Gianfranco ZANDA	=	=	=	=	=	=

Equity investments held by Directors, Statutory Auditors, General Managers and Key Managers

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Name	Company	Class of shares	Number of shares held at end of 2007 (or at date of appointment)	Number of shares purchased in 2008	Number of shares sold in 2008	Number of shares held at end of 2008 (or as of the date on which the individual left post, if before)
GENERAL MANAGERS						
Massimo CASTELLI	=	=	=	=	=	=
Luca LUCIANI	Telecom Italia S.p.A.	Savings	55,484	=	=	55,484
Enrico PARAZZINI	Telecom Italia S.p.A.	Savings	27,700(5)	=	=	27,700(5)
Stefano PILERI	Telecom Italia S.p.A.	Ordinary	10,892	=	=	10,892
KEY MANAGERS	Telecom Italia S.p.A.	Ordinary	23,471(6)	=	=	23,471(6)
	Telecom Italia Media S.p.A.	Ordinary	702	=	=	702

(1) Shares held indirectly.
(2) Of which 18,000 shares held indirectly.
(3) Of which 30,000 shares held indirectly.
(4) Of which 50,000 shares held indirectly.
(5) Of which 15,000 shares held indirectly.
(6) Of which 3,961 shares held indirectly.

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Glossary

2G (second-generation Mobile System)

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

3G (third-generation Mobile System)

Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity.

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

ADS (American Depositary shares)

Used for the listing of Telecom Italia ordinary and savings shares on the NYSE (New York Stock Exchange). The ordinary and savings ADS (American Depositary Shares) representing, respectively, 10 ordinary shares and 10 savings shares of Telecom Italia.

ADSL (Asymmetric Digital Subscriber Line)

A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can transmit up to 6 Mbps to a subscriber, and as much as 832 Kbps or more in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

Backbone

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

Bitstream

Wholesale BroaBand access service which consists of supplying an access to XDSL Telecom Italia network and a transmission capacity until to the network of another OLO.

BroadBand services

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

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Broadcast

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

BSS (Business Support System)

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

Bundle

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

Carrier

Company that makes available the physical telecommunication network.

CPS (Carrier Pre-selection)

Permits a customer to pre-select another operator as an alternative to Telecom Italia without dialing an identifying code.

Digital

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

DTT

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

DSL Network (Digital Subscriber Line Network)

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

DSLAM (Digital Subscriber Line Access Multiplexer)

The DSLAM denotes a telecommunications equipment to process digital signals of various clients and multiply them in a data link to the nodes of the Internet.

DVB - H (Digital Video Broadcasting - Handheld)

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

FTT HOME, FTT CURB, FTT *(Fiber to the)*

It is the term used to indicate any network architecture that uses fibre optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the distribution network where the fibre connection is made, with respect to the end-user. In the case of FTT Curb (Fibre to the Curb) the fibre arrives at the apparatus (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of FTTHome (Fibre to the Home), the fibre terminates inside the home of the customer.

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GSM (Global System for Mobile Communication)

A standard for digital cellular telephony used in the world and working on 900MHz and 1800MHz band.

HCFC (Hydrochlorofluorocarbons)

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

HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed Universal Mobile Telecommunications System)

UMTS evolution allows broadband connections up to 3.6 Mbps.

ICT (Information and communication(s) technology)

Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

Internet

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

IP (Internet Protocol)

A set of communications protocols for exchanging data over the Internet.

IPTV (Internet Protocol Television)

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

Kvar (kilovolt amperes reactive)

Reactive energy. measurement system, expressed in kilovolt, of power losses in an AC electrical system.

LCA (Life Cycle Analysis) Life Cycle Analysis.

Analytic methodology for the evaluation and quantification of environmental impact associated to a product/process/activity along the whole life cycle, from the extraction and acquisition of raw materials up to the end of life.

Local Loop (Doppino Telefonico)

Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called last mile .

MEMS (Micro-Electro-Mechanical Systems)

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

Multimedia

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

Network

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

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NGN2 (Next Generation Network)

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

OLOs (Other Licensed Operators)

Companies other than the incumbent operator which operate telecommunications systems in a national market.

Optical fiber

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

OSS (Operations Support System)

Methods and procedures (whether mechanized or not) which directly support the daily operation of the telecommunications infrastructure.

Pay-Per-View or PPV

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

Pay TV

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

Penetration

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

Platform

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

Roaming

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

RoHS (Restriction of Hazardous Substances)

Restriction of Hazardous Substances. European Directive n° 95 of 2002 regulating the use of hazardous substances in electrical and electronic equipment.

SAR (Specific Absorption Rate)

Specific Absorption Rate. evaluates the electromagnetic power absorbed by a tissue mass . SAR is measured in Watt/kg. As far as mobile phones, the law now enforces SAR as the reference parameter to define the basic limit. a person exposed to an electromagnetic field inducing a SAR level higher than established may undergo the relevant effects and health damage. To safeguard the population health and the health of people directly exposed, by virtue of their work, to electromagnetic waves, the European legislation has established SAR thresholds than should not be exceeded.

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Shared Access

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

SMS (Short Message Service)

Short text messages than can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

SOHO

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

TDMA (Time Division Multiple Access)

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

ULL (Unbundling Local Loop)

System through which OLO can rent the last mile of local loop, connecting to their equipments.

UMTS (Universal Mobile Telecommunications System)

Third-generation mobile communication standard. It s constituted by a broadband system in which data travel at 2Mb-per-second, communication is faster, quality is better and multimedia contents can travel trough the Net.

Universal service

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

VAS (Value Added Services)

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

VDSL (Very - high data rate Digital Subscriber Line)

Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with a speeds of up to 100 Mbps in downstream (VDSL2).

VOD (Video On Demand)

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

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VoIP (Voice Over IP)

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

Wi Max (Worldwide Interoperability for Microwave Access)

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

WLR (WHOLESALE LINE RENTAL)

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

XDSL (Digital Subscriber Line)

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

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Consolidated balance sheets

Assets

(millions of euro)	*note*	12/31/2008	*of which related parties*	12/31/2007	*of which related parties*
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	4)	43,891		44,420	
Intangible assets with a finite useful life	5)	6,492		6,985	
Tangible assets	6)	**50,383**		**51,405**	
Property, plant and equipment owned		14,252		15,484	
Assets held under finance leases		1,410		1,450	
		15,662		**16,934**	
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method	7)	496		484	
Other investments	7)	57		57	
Securities, financial receivables and other non-current financial assets	7)	2,663	*255*	695	*25*
Miscellaneous receivables and other non-current assets	7)	694	*4*	866	*7*
Deferred tax assets	8)	987		247	
		4,897		**2,349**	
TOTAL NON-CURRENT ASSETS (A)		**70,942**		**70,688**	
CURRENT ASSETS					
Inventories	9)	379		308	
Trade and miscellaneous receivables and other current assets	10)	8,101	*386*	9,088	*534*
Current income tax receivables	11)	73		101	
Investments	12)	39			
Securities other than investments	13)	185		390	*7*
Financial receivables and other current financial assets	14)	491	*41*	377	*13*
Cash and cash equivalents	15)	5,416	*1,197*	6,473	*278*
Current assets sub-total		**14,684**		**16,737**	
Discontinued operations/Non-current assets held for sale	16)				
of a financial nature					
of a non-financial nature		9			
		9			
TOTAL CURRENT ASSETS (B)		**14,693**		**16,737**	
TOTAL ASSETS (A+B)		**85,635**		**87,425**	

Consolidated balance sheets

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Equity and liabilities

(millions of euro)	*note*	12/31/2008	*of which related parties*	12/31/2007	*of which related parties*
EQUITY	17)				
Share Capital issued		10,674		10,674	
Less: Treasury shares		(83)		(69)	
Share Capital		**10,591**		**10,605**	
Paid-in capital		1,689		1,689	
Other reserves and retained earnings (accumulated losses), including profit for the year		13,846		13,628	
Equity attributable to equity holders of the Parent		**26,126**		**25,922**	
Equity attributable to Minority Interest		730		1,063	
TOTAL EQUITY (A)		**26,856**		**26,985**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	18)	36,527	*855*	37,051	*860*
Employee benefits	23)	1,212		1,151	
Deferred tax liabilities	8)	386		586	
Provisions	24)	692		903	
Miscellaneous payables and other non-current liabilities	25)	1,539	*26*	1,587	*24*
TOTAL NON-CURRENT LIABILITIES (B)		**40,356**		**41,278**	
CURRENT LIABILITIES					
Current financial liabilities	18)	6,267	*217*	6,585	*305*
Trade and miscellaneous payables and other current liabilities	26)	10,896	*452*	12,380	*341*
Current income tax payables	27)	1,260		197	
Current liabilities sub-total		**18,423**		**19,162**	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	16)				
of a financial nature					
of a non-financial nature					
TOTAL CURRENT LIABILITIES (C)		**18,423**		**19,162**	
TOTAL LIABILITIES (D=B+C)		**58,779**		**60,440**	
TOTAL EQUITY AND LIABILITIES (A+D)		**85,635**		**87,425**	

Consolidated balance sheets

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Consolidated income statements

(millions of euro)	*note*	**Year 2008**	*of which related parties*	**Year 2007**	*of which related parties*
Revenues	29)	30,158	*1,049*	31,013	*495*
Other income	30)	356	*12*	406	*3*
Total operating revenues and other income		**30,514**		**31,419**	
Acquisition of goods and services	31)	(13,876)	*(738)*	(14,255)	*(287)*
Employee benefits expenses	32)	(4,220)	*(134)*	(3,822)	*(129)*
Other operating expenses	33)	(1,696)	*(1)*	(2,231)	
Changes in inventories		114		11	
Internally generated assets	34)	531		546	
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)		**11,367**		**11,668**	
of which net impact of non-recurring items	46)	***(295)***		***(43)***	
Depreciation and amortization	35)	(5,906)		(5,674)	
Gains (losses) on disposals of non-current assets	36)	35		5	
Impairment reversals (losses) on non-current assets	37)	(33)		(44)	
OPERATING PROFIT (EBIT)		**5,463**		**5,955**	
of which net impact of non-recurring items	46)	***(282)***		***(39)***	
Share of profits (losses) of associates and joint ventures accounted for using the equity method		64		86	
Other income (expenses) from investments	38)	4		467	
Finance income	39)	3,724	*347*	2,908	*84*
Finance expenses	40)	(6,358)	*(87)*	(5,092)	*(84)*
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**2,897**		**4,324**	
of which net impact of non-recurring items	46)	***(338)***		***423***	
Income tax expense	41)	(653)		(1,683)	
PROFIT FROM CONTINUING OPERATIONS		**2,244**		**2,641**	
Profit or loss from Discontinued operations/Non-current assets held for sale	16)	(29)	*(1)*	(186)	
PROFIT FOR THE YEAR		**2,215**		**2,455**	
of which net impact of non-recurring items	46)	***(86)***		***436***	
of which:					
*** Profit attributable to equity holders of the Parent**		**2,214**		**2,448**	
* Profit (loss) attributable to Minority interest		1		7	

(euro)		**Year 2008**	**Year 2007**
Basic and Diluted Earnings Per Share (EPS) (*)	42)		
Basic and Diluted EPS per:			
ordinary Share		0,11	0,12
savings Share		0,12	0,13
of which:			
from continuing operations			
ordinary share		0,11	0,13
savings share		0,12	0,14
from discontinued operations/Non-current assets held for sale			
ordinary share			(0,01)
savings share			(0,01)

(*) Basic EPS is equal to Diluted EPS.

Consolidated income statements

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Consolidated statements of changes in equity

Changes in equity in 2007

(millions of euro)	Share capital	Paid-in capital	Exchange differences on translating foreign operations	Other reserves and retained earnings, including profit for the year	Total	Equity attributable to Minority interest	Total equity
	Equity attributable to equity holders of the Parent						
Balance at December 31, 2006	**10,605**	**1,689**	**686**	**13,038**	**26,018**	**1,080**	**27,098**
Changes in equity in 2007							
Available-for-sale financial assets:							
Valuation gains or losses taken to equity				(57)	**(57)**		**(57)**
Gains or losses transferred to the income statement				(138)	**(138)**		**(138)**
Cash flow hedges:							
Valuation gains or losses taken to equity				(114)	**(114)**		**(114)**
Gains or losses transferred to the income statement				468	**468**		**468**
Exchange differences on translating foreign operations			203		**203**	54	**257**
Tax on items taken directly to equity or transferred from equity				(85)	**(85)**		**(85)**
Transferred from equity to the income statement after sale of investment			(55)		**(55)**		**(55)**
Net income (loss) recognized directly in equity			**148**	**74**	**222**	**54**	**276**
Profit for the year				2,448	**2,448**	7	**2,455**
Total recognized income and expense for the year			**148**	**2,522**	**2,670**	**61**	**2,731**
Dividends approved				(2,766)	**(2,766)**	(74)	**(2,840)**
Conversion of bonds				2	**2**		**2**
Changes in the scope of consolidation						(2)	**(2)**
Other changes				(2)	**(2)**	(2)	**(4)**
Balance at December 31, 2007	**10,605**	**1,689**	**834**	**12,794**	**25,922**	**1,063**	**26,985**

Consolidated statements of changes in equity

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Changes in equity in 2008

	Equity attributable to equity holders of the Parent						
(millions of euro)	**Share capital**	**Paid-in capital**	**Exchange differences on translating foreign operations**	**Other reserves and retained earnings, including profit for the year**	**Total**	**Equity attributable to Minority interest**	**Total equity**
Balance at December 31, 2007	**10,605**	**1,689**	**834**	**12,794**	**25,922**	**1,063**	**26,985**
Changes in equity in 2008							
Available-for-sale financial assets:							
Valuation gains or losses taken to equity				(2)	**(2)**		**(2)**
Gains or losses transferred to the income statement							
Cash flow hedges:							
Valuation gains or losses taken to equity				122	**122**		**122**
Gains or losses transferred to the income statement				211	**211**		**211**
Exchange differences on translating foreign operations			(616)		**(616)**	(162)	**(778)**
Tax on items taken directly to equity or transferred from equity				(106)	**(106)**		**(106)**
Net income (loss) recognized directly in equity			**(616)**	**225**	**(391)**	**(162)**	**(553)**
Profit for the year				2,214	**2,214**	1	**2,215**
Total recognized income and expense for the year			**(616)**	**2,439**	**1,823**	**(161)**	**1,662**
Dividends approved				(1,609)	**(1,609)**	(59)	**(1,668)**
Grant of equity instruments				1	**1**		**1**
Treasury shares	(14)			(13)	**(27)**		**(27)**
Change in the scope of consolidation						(117)	**(117)**
Other changes				16	**16**	4	**20**
Balance at December 31, 2008	**10,591**	**1,689**	**218**	**13,628**	**26,126**	**730**	**26,856**

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Consolidated cash flows statements

(millions of euro)	note	Year 2008	Year 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations		2,244	2,641
Adjustments for:			
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)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**8,405**	**8,771**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of intangible assets on an accrual basis	5)	(2,514)	(2,253)
Purchase of tangible assets on an accrual basis	6)	(2,851)	(3,117)
Total purchase of intangible and tangible assets on an accrual basis (*)		(5,365)	(5,370)
Change in amounts due to fixed asset suppliers		(440)	242
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	7)	(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
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		**(6,874)**	**(4,398)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
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)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		**(2,382)**	**(5,225)**
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)	16)	**(10)**	**72**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(861)**	**(780)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)		**6,204**	**6,960**
Net foreign exchange differences on net cash and cash equivalents (G)		(117)	24
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)		**5,226**	**6,204**

(*) OF WHICH RELATED PARTIES

(millions of euro)	Year 2008	Year 2007
Total acquisitions of intangible and tangible assets on an accrual basis	278	413
Dividends paid	281	383

Consolidated cash flows statements

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Additional cash flows information:

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

ANALYSIS ON NET CASH AND CASH EQUIVALENTS:

(millions of euro)	Year 2008	Year 2007
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:		
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)
	6,204	**6,960**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:		
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 held for sale		30
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale		
	5,226	**6,204**

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Note 1 Form, content and other general information

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. (Telecom Italia) and its subsidiaries (the Telecom Italia Group or the Group) operate mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The consolidated financial statements of the Telecom Italia Group are expressed in euro rounded to the nearest million, unless otherwise indicated, which is also the currency of the primary economies in which the Group operates. Foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the Note Accounting policies .

The consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis (for further details, please refer to the Note Accounting Policies) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS), as well as the measures enacted implementing art. 9 of Legislative Decree 38 dated February 28, 2005. The designation IFRS also includes all effective International Accounting Standards (IAS) and all Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), comprising those previously issued by the Standing Interpretations Committee (SIC).

Comparative figures for the year 2007 have also been presented, in accordance with IAS 1 (*Presentation of Financial Statements*).

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In 2008, the Group applied the accounting policies on a basis consistent with previous years and did not elect the early adoption of any IFRS.

Publication of the consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2008 was approved by resolution of the board of directors meeting held on February 27, 2009.

Financial statement formats

The financial statement formats adopted are consistent with IAS 1. In particular:

- the consolidated balance sheets have been prepared by classifying assets and liabilities according to current and non-current criterion;
- the consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;
- the consolidated cash flow statements have been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (*Statement of Cash Flows*).

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the income statement by nature, income and expenses relating to non-recurring transactions or events which occur infrequently during the normal course of business operations and their relative impact have been shown separately at the main intermediate result levels.

Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically,

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non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, for instance: losses/expenses following the financial market crisis, income/expenses arising from the sale of properties, business segments and investments included under non-current assets, income/expenses stemming from corporate-related reorganizations and income/expenses arising from fines levied by regulatory agencies.

Again in reference to the above Consob resolution, the amounts of related party transactions or balances have been shown separately, by caption, in the balance sheets, income statements and cash flow statements.

Segment information

The Telecom Italia Group is organized by business segment as follows:

Domestic Business Unit: includes Telecommunications operations of Telecom Italia S.p.A. (fixed and mobile) and the Telecom Italia Sparkle group (fixed) and the relative support activities;

Brazil Business Unit: comprises Telecommunications activities in Brazil;

European BroadBand Business Unit: comprises BroadBand services in Germany and the Netherlands;

Media Business Unit: includes Television and News activities;

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

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

Scope of consolidation

The changes in the scope of consolidation at December 31, 2008 compared to December 31, 2007 are listed below:

a) Inclusions in the scope of consolidation (*):

Company		Business Unit	Month
Purple Tulip B.V.	new acquisition	Other Operations	December 2008
Telecom Italia Sparkle Bulgaria EOOD	newly formed	Domestic	December 2008
Telecom Italia Sparkle Czech S.R.O.	newly formed	Domestic	September 2008
Telecom Italia Sparkle Est S.r.l.	newly formed	Domestic	November 2008
Telecom Italia Sparkle Hungary Limited Liability Company	newly formed	Domestic	September 2008
Telecom Italia Sparkle Slovakia S.R.O.	newly formed	Domestic	November 2008

(*)

During 2008, Telecom Italia Media transferred the business segment denominated Pay-per-View to a newly formed company named APTV S.r.l.. Later, on December 1, 2008, APTV S.r.l. was sold.

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b) Exclusions from the scope of consolidation (*):

Company		Business Unit	Month
Ascai Servizi S.r.l. (in liquidation)	liquidated	Other Operations	December 2008
Entel Bolivia group:	classified as an	Other Operations	April 2008
Entel S.A. Empresa Nacional de Telecomunicaciones	Available-for-sale		
	financial asset		
Datacom S.A.	under Current assets		
Liberty Surf Group:	disposed of	European	August 2008
Liberty Surf Group S.A.S.		BroadBand	
Intercall S.A.			
Liberty Surf Network B.V. (in liquidation)			
Telecom Italia S.A.S.			
Iridium Italia S.p.A (in liquidation)	liquidated	Other Operations	November 2008
Mediterranean Nautilus Inc.	liquidated	Domestic	May 2008
Milano Design Studio S.r.l.	disposed of	Media	January 2008
Olivetti Colombiana S.A. (in liquidation)	liquidated	Olivetti	January 2008
Olivetti de Argentina S.A.C.e.l. (in liquidation)	liquidated	Olivetti	August 2008
Olivetti de Puerto Rico Inc.	liquidated	Olivetti	August 2008
Saturn Venture Partners LLC	liquidated	Other Operations	May 2008
SCS Comunicazione Integrata S.p.A. (in liquidation)	liquidated	Media	March 2008
Telsi Unlimited	liquidated	Other Operations	May 2008

(*) During 2008, Telecom Italia Media transferred the business segment denominated Pay-per-View to a newly formed company named APTV S.r.l.. Later, on December 1, 2008, APTV S.r.l. was sold.

c) Mergers:

Company		Business Unit	Month
Diaspron do Brasil S.A. (in liquidation)	merged in Telecom	Other Operations	October 2008
Multidata S.A. Eletronica Ind. e Comercio	Italia Latam S.A. - ex		
(in liquidation)	Olivetti do Brasil S.A.		
Telecom Italia America Latina S.A.	merged in Telecom	Other Operations	January 2008
	Italia Latam S.A. - ex		
	Olivetti do Brasil S.A.		
Tiemme Sistemi S.r.l.	merged in Olivetti S.p.A.	Olivetti	April 2008
Tim International N.V.	merged in Telecom	Other Operations	June 2008
	Italia International N.V.		

The changes in the scope of consolidation at December 31, 2007 compared to December 31, 2006 were mainly due to the inclusion of the AOL companies in Germany (AOL Service Germany GmbH, AOL Erste Beteiligungsgesellschaft GmbH, AOL Zweite Beteiligungsgesellschaft GmbH and AOL Deutschland GmbH & Co KG). These companies were acquired at the end of February 2007, consolidated from March 1, 2007 and merged in HanseNet Telekommunikation GmbH in June 2007.

At December 31, 2008 and 2007, subsidiaries, associates and joint ventures of Telecom Italia can be analyzed as follows.

		12/31/2008	
Companies:	**Italy**	**Abroad**	**Total**
subsidiaries consolidated line-by-line	33	70	103
joint ventures accounted for using the equity method	1	1	2

associates accounted for using the equity method	18	4	22
Total companies	**52**	**75**	**127**

Note 1 - Form, content and other general information

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Companies:	Italy	12/31/2007 Abroad	Total
subsidiaries consolidated line-by-line	38	80	118
joint ventures accounted for using the equity method	2	1	3
associates accounted for using the equity method	20	8	28
Total companies	**60**	**89**	**149**

For additional details, please refer to the Note List of companies of the Telecom Italia Group .

Discontinued operations/Non-current assets held for sale

Reference should be made to the Note Discontinued operations/Non-current assets held for sale .

Note 2 Accounting policies

Going concern

The consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future.

In particular, consideration has been given to the following factors which Management believes, at this time, are not such as to generate doubts as to the Group s ability to continue as a going concern:

- the main risks and uncertainties to which the Group and the various activities of the Telecom Italia Group are exposed, referred to in the specific paragraph Major risks and uncertainties included in the Report on Operations under Business outlook for the year 2009 ;
- the measures adopted in terms of the mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, described in the paragraph devoted to the share capital structure under the Note Equity ;
- the identification, the analysis, the objectives and the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

Consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The closing date of all the subsidiaries financial statements coincides with that of the Parent, Telecom Italia.

Control exists when the Telecom Italia Group, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and minority interest in the equity and in the profit for the year is disclosed separately under appropriate captions, respectively, in the consolidated balance sheet and in the consolidated income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date; any resulting positive difference is treated as goodwill and recognized in intangible assets, as described below, whereas any resulting negative difference is recognized in the income statement.

Note 2 - Accounting policies

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All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated on consolidation.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than Euro are translated using the exchange rates in effect at the balance sheet date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the disposal of the investment. The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated cash flow statement are translated at the average exchange rates for the year.

In the context of IFRS first-time adoption, the cumulative exchange differences arising from the consolidation of foreign subsidiaries outside the eurozone was set at nil, as allowed by IFRS 1 (*First-time Adoption of International Financial Reporting Standards*); therefore, only accumulated exchange differences generated and recorded after January 1, 2004 are included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

If losses attributable to minority interest in a consolidated subsidiary exceed the minority interest in the subsidiary s equity, the excess, and any further losses attributable to the minority interest, are allocated against the equity interest attributable to the equity holders of the Parent except to the extent that the minority interest has a binding obligation, and is able, to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interest attributable to the equity holders of the Parent until the minority interest share of losses previously absorbed by the equity holders of the Parent has been recovered.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

The consolidated financial statements include the Group s share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence commences until the date such influence ceases. When the Group s share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group s balance sheet, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has an obligation to cover such losses.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

In relation to transactions involving interests in companies already controlled, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the Group has applied the following accounting treatments, identifying two types of transactions:

- *acquisition/sale of interests in companies already controlled*: on acquisition, the Group pays the minority interest in cash or by new shares and, at the same time, eliminates the relative share of the minority interest and records Goodwill equal to the excess of the acquisition cost over the carrying amount of the corresponding portion of assets and liabilities acquired. In the case of sales, the difference between the proceeds from the disposal of shares and the corresponding carrying amount in the consolidated financial statements is recognized in the income statement (Parent entity extension method);

- *intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership*: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. The minority interest which does not directly take part in the transaction is adjusted to reflect the change in the respective share of equity with a corresponding opposite effect on the equity attributable to the equity holders of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

Note 2 - Accounting policies

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Intangible assets

Goodwill

In the case of the acquisition of a controlling interest in an enterprise, the identifiable assets, liabilities and contingent liabilities acquired (including minority interest) are recorded at fair value at the date of acquisition.

The excess of the cost of acquisition over the Group s interest in the fair value of those assets and liabilities acquired is recognized as goodwill and classified in the balance sheet as an intangible asset with an indefinite useful life.

Goodwill is initially recorded at cost and is subsequently reduced only for impairment losses. For additional details, please refer to the accounting policy *Impairment of assets - Goodwill*, reported below. When a previously acquired enterprise, or part thereof, is sold, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset s future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably. Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the income statement prospectively.

For a small portion of bundled offerings, principally of mobile equipment and services, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time; and
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the service contract, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period of the underlying contract (12 or 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

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Tangible assets

Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at January 1, 2004, at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures (including interest expenses directly attributable to the acquisition, construction or production of the asset) are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the year in which the obligation arises in the balance sheet under provisions at its present value. These capitalized costs are depreciated and charged to the income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. The effects of this calculation, if any, are recognized with an offsetting entry to tangible assets.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

Assets under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the balance sheet under financial liabilities. Lease payments are apportioned between interest (recognized in the income statement) and principal (recognized as a deduction from liabilities).

This division is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

Since there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Impairment of assets

Goodwill

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

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

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

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the income statement.

The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life.

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The recoverable amount of a cash-generating unit (or group of cash-generating units), to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows generally cover a period of 3 years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the end amount of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

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

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

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

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

Intangible and tangible assets with a finite useful life

At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the income statement.

Financial instruments

In the context of IFRS first-time adoption, the Group elected to anticipate the adoption of IAS 32 (*Financial Instruments: Presentation*) and IAS 39 (*Financial Instruments: Recognition and Measurement*) at January 1, 2004. Furthermore, as allowed by IFRS 1, the designation of a financial instrument as a financial asset at fair value through profit or loss or available-for-sale or a financial liability measured at fair value through profit or loss was made at January 1, 2004 instead of at the date of initial recognition.

Note 2 - Accounting policies

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Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group s portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets;
- financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the income statement.

Other unlisted investments classified as available-for-sale whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the income statement.

Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the income statement.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

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Impairment of financial assets

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported previously.

Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value less transaction costs and subsequently measured at amortized cost.

Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Compound financial instruments represented by bonds convertible into shares of the issuer are recognized by splitting the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount, computed as the difference between the fair value of the debt and the proceeds raised on the issue of the financial instrument, is recorded in a specific equity reserve (*Other equity instruments*).

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge, the hedging relationship is formally designated and documented;

b) the hedge is expected to be highly effective;

c) its effectiveness can be reliably measured;

d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

Fair value hedge - Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

Cash flow hedge - Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the hedged

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transaction affects the income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the income statement.

Sales of receivables

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

Amounts due from customers on construction contracts

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the income statement when they become known.

Inventories

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

Discontinued operations/Non-current assets held for sale

Discontinued operations/Non-current assets held for sale include lines of business and assets (or groups of assets) sold or to be disposed of, whose carrying amount was or will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

In accordance with IFRS, Discontinued operations are presented in the financial statements as follows:

- in two lines on the balance sheet: Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale;

- in one line on the income statement: Profit (loss) from Discontinued operations/Non-current assets held for sale.

Employee benefits

Provision for employee severance indemnities

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

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the balance sheet (*Provision for employee severance indemnities*) is determined by actuarial calculations. As allowed by IFRS 1 and IAS 19, in the context of IFRS first-time adoption and for subsequent years, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the income statement as they arise. The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the income statement under Employee benefits expenses .

Starting from January 1, 2007, the 2007 Italian Budget Law and the decrees implementing this law introduced significant changes to employee severance indemnity regulations, including the choice as to the possible destination of accruing employee severance indemnity either to supplementary pension funds or to the Treasury fund managed by INPS.

Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of Defined contribution plans whereas the amounts recorded in the provision for employee severance indemnities retain the nature of Defined benefit plans . These legislative changes introduced starting from 2007 led to a change in the actuarial assumptions and the calculations used for the computation of employee severance indemnities and the related effects have been directly recognized in the income statement.

Equity compensation plans

The companies of the Group provide additional benefits to certain managers and employees of the Group through equity compensation plans (stock options and performance share grants). The stock option plans starting from January 1, 2005 and the performance share granting plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

The Group elected to apply the exemptions set out in IFRS 1, paragraph 25B, and did not apply IFRS 2 to stock option plans granted before November 7, 2002, as the terms and conditions of such plans had not changed.

In accordance with IFRS 2, employee stock options and performance share grants are measured at fair value at the grant date using models that take account of circumstances and factors applicable at the grant date (for instance, for the stock options: option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).

If the right vests after a certain vesting period and, depending on the circumstances, also when certain vesting conditions are satisfied, the total value is allocated over the vesting period and recorded in an equity reserve under Other equity instruments , with a contra-entry to the income statement under Employee benefits expenses .

At the end of each year, the originally measured fair value of each right is not adjusted or updated. However, at that date, adjustments are made to the estimate of the number of rights that will vest up to expiry (and therefore the number of employees who will have option exercise rights or receive shares, as a result of remaining, for example, in service over the vesting period). The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to the income statement under Employee benefits expenses .

Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit for the year .

Note 2 - Accounting policies

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Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the income statement.

Revenue recognition

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

Revenues from services rendered

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

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

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

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

Revenues from sales and bundled offerings

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

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

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

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

Revenues on construction contracts

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

Note 2 - Accounting policies

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Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the income statement in the year in which they are incurred.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group, including relative incidental expenses of a non-financial nature (e.g. penalties); the relative interest expenses are recognized under Finance expenses .

Income taxes are recognized in the income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves.

The income tax expense that could arise on the remittance of a subsidiary s retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred taxes are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the income statement in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies. Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group s profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group s profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the conversion of bonds and the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

Use of estimates

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of

Note 2 - Accounting policies

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

Financial statement line item | Accounting estimates

Goodwill	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows.
Business combinations	The recognition of business combinations requires the excess of the cost of acquisition over net asset value to be allocated to the assets and liabilities of the acquired company. For the majority of assets and liabilities, the allocation of the excess is recognized using a complex process to estimate the assets and liabilities at their fair value. If the unallocated portion is positive, it is recognized as goodwill, and, if negative, it is recognized in the income statement.
Bad debt provisions	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Accruals, contingent liabilities and employee benefits	The estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires management s assessment and judgment to measure the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.
	The accruals connected with legal, arbitration and fiscal disputes are the result of a complex estimate process based upon the probability of an unfavorable outcome. Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	Revenue recognition is influenced by:
	the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs up to the ceiling of the amount of revenues);
	the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues;
	the estimate of the fair value of each component of equipment and/or services packages.
Income taxes	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of

	deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

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

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New Standards and Interpretations endorsed by the EU and in force from January 1, 2008

As required by paragraph 28 of IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), IFRS in force from January 1, 2008 are reported below and briefly summarized.

IFRIC 11 (IFRS 2 Group and Treasury Share Transactions)

On June 1, 2007, Commission Regulation (EC) 611-2007 was published endorsing IFRIC 11 (*IFRS 2 Group and Treasury Share Transactions*).

First of all, this interpretation clarifies that share-based payment transactions in which an entity receives services (for example, from employees) as consideration for its own equity instruments are accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement.

The application of this interpretation did not have any effect on the consolidated financial statements at December 31, 2008.

IAS 39 (Financial Instruments: Recognition and Measurements) and IFRS 7

(Financial Instruments: Disclosures) amendments

On October 15, 2008, Commission Regulation (EC) 1004-2008 was published endorsing some amendments to IAS 39 (*Financial Instruments: Recognition and Measurements*) and IFRS 7 (*Financial Instruments: Disclosures*). The regulation allows, in specific circumstances, certain financial assets to be reclassified outside the categories of financial assets through profit or loss and available-for-sale financial assets .

The amendments to IFRS 7 introduced new disclosure requirements relating to reclassifications allowed by amended IAS 39.

These amendments did not have any effect on the consolidated financial statements at December 31, 2008 as the Telecom Italia Group did not make any of the allowed reclassifications.

IFRIC 14 (IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

On December 16, 2008, Commission Regulation (EC) 1263-2008 was published endorsing IFRIC 14 (*IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*). This interpretation provides general guidelines on how to assess the limit established by IAS 19 on the amount of the net assets of a defined benefit plan that can be recognized in the balance sheet. It also explains how the pension asset or liability may be affected by a minimum funding requirement. This interpretation is currently not applicable to the Telecom Italia Group.

New Standards and Interpretations endorsed by the EU but not yet in force

As required by paragraph 30 of IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), IFRS in force from January 1, 2009 or thereafter are reported below and briefly summarized.

IFRS 8 (Operating Segments)

On November 21, 2007, Commission Regulation (EC) 1358-2007 was published endorsing IFRS 8 (*Operating Segments*).

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments for which discrete financial information is available and whose operating results are reviewed regularly by the entity s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Financial information is to be presented on the same basis as that used for internal reporting to the chief operating decision maker.

IFRS 8 is effective for annual financial statements or periods beginning on or after January 1, 2009 and supersedes IAS 14 (*Segment Reporting*).

Note 2 - Accounting policies

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The adoption of this standard will not produce any effect on the measurement of financial statement line items.

IAS 23 (Borrowing Costs) amendments

On December 10, 2008, Commission Regulation (EC) 1260-2008 was published endorsing the amendments to IAS 23 (*Borrowing Costs*).

The main amendment to IAS 23 removes the option, allowed in the previous version of the standard, of immediately recognizing borrowing costs as an expense in the period incurred (the treatment adopted by the Telecom Italia Group), rather than capitalizing them. The revised IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for use or sale to be capitalized as part of the cost of such assets.

The amended IAS 23 is effective from January 1, 2009.

IFRIC 13 (Customer Loyalty Programmes)

On December 16, 2008, Commission Regulation (EC) 1262-2008 was published endorsing IFRIC 13 (*Customer Loyalty Programmes*). This interpretation addresses general accounting guidelines for customer loyalty programmes. Such interpretation is characterized by the following elements:

- loyalty award credits granted to a customer are considered a separately identifiable element of the original sales transaction of the product or service itself and represent rights granted to the customer, for which the customer implicitly paid;

- the amount of sales proceeds allocated to the loyalty award credits is measured by reference to their fair value (that is, the amount for which the award credits could have been sold separately). The entity recognizes the deferred portion of the proceeds as revenue only when it has fulfilled its obligations.

IFRIC 13 is effective from January 1, 2009 and will be accounted for retrospectively in accordance with IAS 8.

The estimate of the pre-tax effect of the application of this interpretation on the 2008 consolidated financial statements can be summarized as follows:

- at January 1, 2008: on equity attributable to the equity holders of the Parent , a decrease of approximately euro 7 million in retained earnings , being the balance between the increase in deferred income , as a result of the deferral of revenues for loyalty award credits, and the decrease in provisions , as a result of the reversal of the amount set aside for customer loyalty program obligations. Equity attributable to Minority Interest is not expected to be impacted;

- year 2008: on profit before tax from continuing operations , a decrease of approximately euro 39 million, mainly being the balance between the amounts of revenues deferred and released to the income statement;

- at December 31, 2008: on equity attributable to the equity holders of the Parent , a decrease of approximately euro 46 million in retained earnings including profit for the year . Equity attributable to Minority Interest is not expected to be impacted.

IAS 1 (Presentation of Financial Statements) amendments

On December 17, 2008, Commission Regulation (EC) 1274-2008 was published endorsing the amendments to IAS 1 (*Presentation of Financial Statements*).

The main changes introduced provide for:

the presentation of all owner changes in equity in the statement of changes in equity;

the presentation of all non-owner changes in equity either:

in one Statement of Comprehensive Income, which includes revenues, income, costs and expenses recognized directly in the income statement, the profit (loss) for the year, as well as the detail of income and expenses recognized directly in equity (these latter forming the Other comprehensive income); or

in two statements: a statement (Separate Income Statement) displaying components of profit (loss) for the year and a second statement (Statement of Comprehensive Income) beginning with profit (loss) for the year and displaying components of other comprehensive income.

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The revised IAS 1 is effective for annual periods beginning on or after January 1, 2009.

The adoption of this standard will not produce any effect on the measurement of financial statement line items.

IFRS 2 (Share-Based Payment) Amendments

On December 16, 2008, Commission Regulation (EC) 1261-2008 was published endorsing the amendments to IFRS 2 (*Share-Based Payment*).

The standard clarifies the definition of vesting conditions and specifies the cases in which a condition that is not satisfied will result in the recognition of a cancellation of the award granted.

The amended IFRS 2 is effective beginning January 1, 2009.

The amendments are not expected to have any impact on the consolidated financial statements.

IAS 32 (Financial Instruments: Disclosure) and IAS 1

(Presentation of Financial Statements) amendments

On January 21, 2009, Commission Regulation (EC) 53-2009 was published endorsing some amendments to IAS 32 (*Financial Instruments: Disclosure*) and IAS 1 (*Presentation of Financial Statements*).

The amendments to IAS 32 require, when certain conditions are met, that certain puttable financial instruments or obligations arising on liquidation should be classified as equity.

The amendments to IAS 1 require disclosure of specific information about those instruments.

The amended IAS 32 and IAS 1 are effective from January 1, 2009.

The amendments are not expected to have a material impact on the consolidated financial statements.

Improvements to IFRS

On January 23, 2009, Commission Regulation (EC) 70-2009 was published endorsing some improvements to International Financial Reporting Standard (IFRS).

The improvements that are effective from January 1, 2009 are the following:

- IAS 1 (*Financial Statement Presentation*): assets and liabilities arising from derivative financial instruments that are held for trading and that are not financial guarantee contracts or designated hedging instruments should be presented as either current or non-current assets and liabilities, according to their settlement date.

- IAS 16 (*Property, Plant and Equipment*): the amendment provides clarification on the classification and accounting treatment for an entity that, in the course of the ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others.

- IAS 19 (*Employee Benefits*): the amendment clarifies the treatment for changes in employee benefits, defines recognition for cost and income relating to past service cost and revises the distinction between short-term and long-term employee benefits, and must be applied prospectively.

IAS 20 (*Accounting for Government Grants and Disclosure of Government Assistance*): the amendment states that the benefit of a government loan at a below-market interest rate should be treated as a government grant, and must be applied prospectively.

IAS 23 (*Borrowing Costs*): the amendment revises the definition of borrowing costs.

IAS 28 *(Investments in Associates)*: the amendment clarifies that where investments in associates are accounted for by the equity method, any impairment loss should not be allocated to specific assets (and, in particular, to any goodwill) included within the carrying amount of the investment in the associate, but, rather, to the investment as a whole. Accordingly, where there are conditions for a subsequent reversal, such impairment reversal is recognized in full.

IAS 29 (*Financial Reporting in Hyperinflationary Economies*): these are amendments to a standard that is currently not applicable to the Group.

IAS 36 (*Impairment of Assets*): this amendment requires additional disclosure if fair value less costs to sell is determined using discounted cash flow projections.

IAS 38 (*Intangible Assets*): the amendment requires advertising and promotional costs to be recognized in the income statement. It states that when an entity incurs costs providing future economic benefits, but no intangible assets are recognized, such costs should be recognized as expenses when incurred, meaning when the entity receives the related goods or services. Moreover, an amendment to the standard allows entities to use the Unit of Production Method to calculate the amortization charge on an intangible asset with a finite useful life.

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IAS 39 (*Financial Instruments: Recognition and Measurement*): the amendment clarifies how to calculate the revised effective interest rate on a financial instrument on cessation of fair value hedge accounting and also specifies the cases in which it is possible for there to be movements into and out of the fair value through profit or loss category.

IAS 40 (*Investment Property*): these are amendments to a standard that is currently not applicable to the Group.
Moreover, an amendment was made to IFRS 5 (*Non-current Assets held for Sale and Discontinued Operations*): the amendment clarifies that all of a subsidiary s assets and liabilities are classified as held for sale if an entity s disposal sale plan results in loss of control, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The amended IFRS 5 is effective from January 1, 2010.

The application of improvements to IFRS is not expected to have a material impact on the consolidated financial statements.

Note 3 Business combinations

Year 2008

In 2008, there were no transactions entered into of the type of business combinations defined in IFRS 3.

Year 2007

Acquisition of AOL Germany

On February 28, 2007, the Telecom Italia Group finalized the transaction for the acquisition of the AOL internet activities in Germany (broadband and narrowband) from the Time Warner Group. The consideration paid amounted to euro 669 million, including euro 6 million of transaction costs.

The customer relationships will be amortized over 5.4 years while the audience agreements will be amortized over 5 years.

The effect on the net financial position was euro 666 million (euro 669 million for the consideration paid net of euro 3 million of cash and cash equivalents acquired).

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AOL Germany Group Data at February 28, 2007

(millions of euro)		Fair Value	Carrying value
Goodwill		582	70
Other non-current assets		154	24
Total current assets		14	14
Total assets	**(A)**	**750**	**108**
Deferred tax liabilities		40	
Total current liabilities		41	41
Total liabilities	**(B)**	**81**	**41**
Net assets acquired	**(A-B)**	**669 (*)**	**67**
(*) of which:			
Acquisition cost		663	
Transaction costs (taxes, legal fees and other expenses)		6	
Total acquisition cost		**669**	

The original Goodwill of euro 582 million was written down in 2008 by euro 21 million, as detailed in the Note Goodwill .

Note 4 Goodwill

Details of goodwill by business segment and the changes during 2007 and 2008 are presented in the following tables:

(millions of euro)	12/31/2006	Discontinued Operations	Increase	Decrease	Exchange differences	12/31/2007
Domestic	**41,953**					**41,953**
Brazil	**1,199**				96	**1,295**
European BroadBand	**357**		585			**942**
Media	**230**					**230**
Total	**43,739**		**585**		**96**	**44,420**

(millions of euro)	12/31/2007	Discontinued Operations	Increase	Decrease	Exchange differences	12/31/2008
Domestic	**41,953**					**41,953**
Brazil	**1,295**				(257)	**1,038**
European BroadBand	**942**	(249)		(21)		**672**
Media	**230**			(2)		**228**
Total	**44,420**	**(249)**		**(23)**	**(257)**	**43,891**

The decrease of euro 529 million in 2008 euro is due to the following:

-euro 249 million for the reclassification of Liberty Surf group to Discontinued operations/Non-current assets held for sale;

-euro 21 million for the impairment loss on goodwill relating to the acquisition of AOL internet businesses in Germany through HanseNet, following the recognition of tax benefits in 2008 that had not been recognized at the acquisition date since the requisites for recognition were not believed to have existed at that time;

-euro 2 million for the portion of goodwill attributed to the Pay-per-View operations conferred to APTV S.r.l., sold in December;

-euro 257 million for the exchange differences relating to the goodwill of the Brazilian companies.

Note 4 - Goodwill

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The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units CGU) to December 31, 2008 and 2007 can be summarized as follows:

(millions of euro)	12/31/2008 Gross carrying amount	Accumulated impairment losses	Net carrying amount	12/31/2007 Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	(*)42,245	(*)(292)	**41,953**	(*)42,245	(*)(292)	**41,953**
Brazil	1,045	(7)	**1,038**	1,302	(7)	**1,295**
European BroadBand	693	(21)	**672**	942		**942**
Media	228		**228**	230		**230**
Olivetti	6	(6)		6	(6)	
Total	**44,217**	**(326)**	**43,891**	**44,725**	**(305)**	**44,420**

(*) Includes euro 282 million relating to the settlement with De Agostini in 2004.

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. To test for impairment, goodwill must be allocated to cash-generating units (or groups of units) which must not be at a level higher than the business segment determined in accordance with IAS 14. The criterion followed for the allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes. The business units (or groups of units) to which goodwill was allocated are as follows:

Sector	Group of units
Domestic	Fixed
	Mobile
Brazil	Tim Brasil
European BroadBand	HanseNet
	BBNed
Media	Telecom Italia Media

The value used to determine the recoverable amount of the units (or groups of units) to which goodwill was allocated is the value in use, with the exception of Telecom Italia Media, for which the stock market capitalization at December 30, 2008 was used as the fair value of the entity. The most representative basic assumptions for the calculation of the value in use of each group of cash-generating units are presented in the following table:

Domestic Fixed	Domestic Mobile	Brazil	HanseNet
EBITDA margin (EBITDA/sales) during the period of the plan	EBITDA margin (EBITDA/sales) during the period of the plan	Growth rate of sales during the explicit forecast period (2009-2011)	Number of customers
Investments to maintain profit capability (in proportion to sales)	Investments to maintain profit capability (in proportion to sales)	EBITDA margin (EBITDA/sales) during the period of the plan	Gross operating margin
		BRL/euro exchange rate	
Cost of capital	Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate	Long-term growth rate

All the plan figures are based on 2008 actual results and rely on the best forecasts formulated by management for the period of the 2009-2011 plan. With regard to HanseNet, so as not to consider the net present value of future investments in the impairment test (IAS 36, paragraph 44), only the flow of the expected result for 2009 was considered, forecasting it in perpetuity.

The nominal growth rates used to estimate the end amount are the following (the growth rate of Brazil refers to flows in Brazilian reais):

Domestic Fixed	Domestic Mobile	Brazil	HanseNet
-0.5%	+0.5%	+4.5%	+0%

Such rates fall within the range of growth rates applied by the analysts following Telecom Italia stock (as can be seen from the reports published after the announcement of the Group s 2009-2011 plan).

The cost of capital was estimated by considering the following:

a) the criteria for the estimate of the cost of capital CAPM Capital Asset Pricing Model (the same criteria used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

b) the Beta coefficient for business segments arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account its financial structure;

c) the Weighted Average Cost of Capital (WACC) used by other operators to test the value of goodwill;

d) for the major business areas in which the group operates reference was made to the WACC) identified by the analysts who follow Telecom Italia stock in their reports published after announcement of the 2009-2011 Group plan. Since a direct correlation exists between the cost of capital used by analysts and the long-term growth rate (g) projected for the purposes of estimating the end amount, a comparison was also made in terms of capitalization rates (WACC-g).

On the basis of these elements, the post-tax Weighted Average Cost of Capital and the capitalization rate (WACC post-tax g) were estimated for each Business Unit (Brazilian reais are used for Brazil) as follows:

	Domestic Fixed	Domestic Mobile	Brazil	HanseNet
WACC post tax	7.9%	8.2%	14.2%	7.4%
WACC post tax - g	8.4%	7.7%	9.7%	7.4%

Having considered the nominal flows of the result for the estimate of the value in use, the discount rates are also expressed in nominal terms (in Brazilian reais for Brazil).

A sensitivity analysis of the results compared to the weighted average cost of capital was also carried out for the individual cash-generating units for which the value in use was estimated. The value in use remains higher than the carrying amounts, even assuming an increase in the weighted average cost of capital of more than 100 basis points (hundredths of a percentage point) except for the Domestic Mobile CGU where the value in use would be equal to the carrying amount in the financial statements with an increase in the weighted average cost of capital of 64 basis points.

The excess of the value in use over the carrying amount of this CGU at December 31, 2008 is equal to euro 2.6 billion.

The second level impairment test was made by considering the total recoverable amount of the entire Domestic segment consisting of the Domestic Fixed, Domestic Mobile and Domestic Central Functions Business Units. Specifically, the recoverable amount of the Domestic Central Functions (corporate) unit was negative since this unit is a cost center. The total recoverable amount of the Domestic segment was compared to the carrying amount of the total operating capital referring to the same group of units. No impairment resulted at this second level of testing either.

Finally, a third level impairment test was made by considering the total recoverable amount of all the Business Units of the Group, including those without any goodwill allocation (Olivetti, Central Functions and Other Operations). The total recoverable amount of all the Business Units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments. There was no impairment at this last level of testing.

Note 4 - Goodwill

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Note 5 Intangible assets with a finite useful life

Intangible assets with a finite useful life decreased by euro 493 million compared to December 31, 2007. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2006	Discontinued Operations	Additions	Amortization	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	12/31/2007
Industrial patents and intellectual property rights	**2,621**		1,387	(1,760)	(7)		36	519	**2,796**
Concessions, licenses, trademarks and similar rights	**3,172**		192	(323)		(1)	40	9	**3,089**
Other intangible assets	**176**		350	(298)			5	130	**363**
Work in progress and advance payments	**771**		428		(16)	(1)	3	(448)	**737**
Total	**6,740**		**2,357**	**(2,381)**	**(23)**	**(2)**	**84**	**210**	**6,985**

(millions of euro)	12/31/2007	Discontinued Operations	Additions	Amortization	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	12/31/2008
Industrial patents and intellectual property rights	**2,796**	(42)	1,218	(1,775)		(2)	(97)	522	**2,620**
Concessions, licenses, trademarks and similar rights	**3,089**	(149)	633	(331)			(178)	24	**3,088**
Other intangible assets	**363**	(25)	302	(342)			(11)	3	**290**
Work in progress and advance payments	**737**	(19)	361		(6)	(1)	(6)	(572)	**494**
Total	**6,985**	**(235)**	**2,514**	**(2,448)**	**(6)**	**(3)**	**(292)**	**(23)**	**6,492**

Additions made in 2008 include euro 318 million of internally generated assets (euro 335 million in 2007). Additional details are provided in the Note Internally generated assets .

Industrial patents and intellectual property rights at December 31, 2008 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the period of useful benefit, estimated to be three years). They mainly refer to Telecom Italia S.p.A. (euro 2,101 million) and the Brazil Business Unit (euro 392 million).

Concessions, licenses, trademarks and similar rights at December 31, 2008 mainly refer to:

the residual unamortized cost of UMTS and GSM licenses (euro 1,755 million for Telecom Italia S.p.A. and euro 412 million for the Brazil Business Unit);

the residual unamortized cost of the licenses for 3G services throughout the Brazilian territory purchased in 2008, equal to euro 364 million (euro 477 million of additions gross of the amortization charge of euro 21 million and taking into account the negative exchange effect of euro 92 million);

the residual unamortized cost of the license of Telecom Italia S.p.A. for the WiMax service for euro 13 million (euro 14 million of additions for the acquisition in 2008);

Indefeasible Rights of Use-IRU (euro 202 million) referring mainly to the Telecom Italia Sparkle group companies;

TV frequencies of the Media Business Unit (euro 137 million);

costs incurred by the European BroadBand companies for Local Loop Unbundling (euro 178 million).

Note 5 - Intangible assets with a finite useful life

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The unamortized cost of telephone licenses totaling euro 2,544 million (amortized on a straight-line basis), refers to the following:

- licenses of Telecom Italia S.p.A.:
  - UMTS: euro 1,746 million expiring 2021 (amortized over 18 years);
  - Wireless Local Loop: euro 9 million expiring 2021, (amortized over 15 years);
  - WiMax: euro 13 million, expiring 2023 (amortized over 15 years);
- licenses of the Tim Brasil group:
  - GSM and 3G (UMTS): euro 704 million expiring between 2009 and 2023 (amortized between 4-15 years);
  - TDMA: euro 72 million expiring 2012 (amortized over approximately 14 years).

The Tim Brasil group also operates in fixed-line telecommunications through a switched fixed-line telephone service in the domestic Brazilian market.

Other intangible assets at December 31, 2008 include:

- euro 191 million for the capitalization of subscriber acquisition costs amortized over the minimum period of the contract (12 or 24 months) and referring to some sales campaigns of Telecom Italia S.p.A. (euro 144 million), the Tim Brasil group (euro 42 million) and European BroadBand (euro 5 million);
- euro 85 million for the residual unamortized amount attributed to the customer relationship (euro 75 million, amortized over 5.4 years) and the audience agreement (euro 10 million, amortized over 5 years) of the AOL Germany companies.

Amortization and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, the accumulated impairment losses and accumulated amortization at December 31, 2008 and 2007 can be summarized as follows:

	12/31/2008			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	13,635	(15)	(11,000)	**2,620**
Concessions, licenses, trademarks and similar rights	4,889	(241)	(1,560)	**3,088**
Other intangible assets	992		(702)	**290**
Work in progress and advance payments	505	(11)		**494**

Total	**20,021**	**(267)**	**(13,262)**	**6,492**

	12/31/2007			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	12,496	(15)	(9,685)	**2,796**
Concessions, licenses, trademarks and similar rights	4,784	(228)	(1,467)	**3,089**
Other intangible assets	852		(489)	**363**
Work in progress and advance payments	754	(17)		**737**
Total	**18,886**	**(260)**	**(11,641)**	**6,985**

The impairment losses on Concessions, licenses, trademarks and similar rights mainly refer to the Indefeasible Rights of Use (IRU) of the transmission capacity and cables relating to the international connections acquired by the Latin American Nautilus group.

Such impairments, principally relating to the years prior to 2004, were the result of the altered and shrunken market value of international broadband compared to the expectations anticipated at the historical date of those investments. Impairments increased from euro 228 million to euro 241 million solely as a result of the translation of the U.S. dollar financial statements to euro.

Note 5 - Intangible assets with a finite useful life

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Note 6 Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased by euro 1,232 million compared to December 31, 2007. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2006	Discontinued Operations	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	12/31/2007
Land	**134**					(3)			**131**
Buildings (civil and industrial)	**598**		1	(44)		(9)	2	3	**551**
Plant and equipment	**12,955**		2,352	(2,795)	(5)	(17)	80	387	**12,957**
Manufacturing and distribution equipment	**59**		13	(31)	(4)			11	**48**
Ships	**40**		2	(7)				6	**41**
Other	**1,016**		289	(423)		(14)	24	73	**965**
Construction in progress and advance payments	**888**		449		(15)		6	(537)	**791**
Total	**15,690**		**3,106**	**(3,300)**	**(24)**	**(43)**	**112**	**(57)**	**15,484**

(millions of euro)	12/31/2007	Discontinued Operations	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	12/31/2008
Land	**131**					(2)		(6)	**123**
Buildings (civil and industrial)	**551**		4	(43)		(1)	(9)	(9)	**493**
Plant and equipment	**12,957**	(129)	2,224	(2,850)		(6)	(279)	120	**12,037**
Manufacturing and distribution equipment	**48**		10	(23)				3	**38**
Ships	**41**			(8)					**33**
Other	**965**		303	(407)	(2)	(8)	(54)	60	**857**
Construction in progress and advance payments	**791**	(17)	223		(4)		(20)	(302)	**671**
Total	**15,484**	**(146)**	**2,764**	**(3,331)**	**(6)**	**(17)**	**(362)**	**(134)**	**14,252**

Additions made in 2008 include euro 213 million of internally generated assets (euro 211 million in 2007). Additional details are provided in the Note Internally generated assets .

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets based on the following minimum and maximum rates for the years 2008 and 2007:

Buildings (civil and industrial)	3% - 4%
Plant and equipment	3% - 33%
Manufacturing and distribution equipment	20% - 25%
Ships	9%
Other	11% - 33%

Note 6 - Tangible assets (owned and under finance leases)

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The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2008 and 2007 can be summarized as follows:

	12/31/2008			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Land	123			**123**
Buildings (civil and industrial)	1,291	(1)	(797)	**493**
Plant and equipment	58,999	(70)	(46,892)	**12,037**
Manufacturing and distribution equipment	422	(1)	(383)	**38**
Ships	143	(11)	(99)	**33**
Other	3,882	(8)	(3,017)	**857**
Construction in progress and advance payments	678	(7)		**671**
Total	**65,538**	**(98)**	**(51,188)**	**14,252**

	12/31/2007			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Land	131			**131**
Buildings (civil and industrial)	1,322	(1)	(770)	**551**
Plant and equipment	59,804	(67)	(46,780)	**12,957**
Manufacturing and distribution equipment	773	(4)	(721)	**48**
Ships	143	(11)	(91)	**41**
Other	4,250	(6)	(3,279)	**965**
Construction in progress and advance payments	813	(22)		**791**
Total	**67,236**	**(111)**	**(51,641)**	**15,484**

Assets held under finance leases

Assets held under finance leases decreased by euro 40 million compared to December 31, 2007. Details on the composition and movements during the year are as follows:

(millions of euro)	**12/31/2006**	**Additions**	**Depreciation**	**Other changes**	**12/31/2007**
Buildings (civil and industrial)	**1,417**	24	(100)	20	**1,361**
Plant and equipment	**1**		(1)		
Aircraft	**10**		(4)		**6**
Other	**47**	8	(25)		**30**
Construction in progress and advance payments	**50**	25		(22)	**53**
Total	**1,525**	**57**	**(130)**	**(2)**	**1,450**

(millions of euro)	**12/31/2007**	**Additions**	**Depreciation**	**Other changes**	**12/31/2008**
Buildings (civil and industrial)	**1,361**	21	(104)	24	**1,302**
Plant and equipment		40	(3)		**37**
Aircraft	**6**		(3)		**3**
Other	**30**	3	(17)		**16**
Construction in progress and advance payments	**53**	23		(24)	**52**
Total	**1,450**	**87**	**(127)**		**1,410**

Note 6 - Tangible assets (owned and under finance leases)

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The additions to plant and equipment refers to two IRU contracts, which started in 2008, signed by HanseNet and Versatel AG on June 30, 2008 and October 30, 2008, expiring on December 31, 2022, in addition to an IRU contract, which started on January 1, 2008, signed by HanseNet and TelemaxX GmbH, expiring on December 31, 2016.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2008 and 2007 can be summarized as follows:

	12/31/2008			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,015	(27)	(686)	**1,302**
Plant and equipment	49		(12)	**37**
Aircraft	30		(27)	**3**
Other	170		(154)	**16**
Construction in progress and advance payments	52			**52**
Total	**2,316**	**(27)**	**(879)**	**1,410**

	12/31/2007			
(millions of euro)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	1,971	(27)	(583)	**1,361**
Plant and equipment	9		(9)	
Aircraft	30		(24)	**6**
Other	167		(137)	**30**
Construction in progress and advance payments	53			**53**
Total	**2,230**	**(27)**	**(753)**	**1,450**

At December 31, 2008 and 2007, lease payments due in future years and their present value are as follows:

	12/31/2008		12/31/2007	
(millions of euro)	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within 1 year	219	218	215	205
From 2 to 5 years	789	632	795	645
After 5 years	1,434	737	1,601	793
Total	**2,442**	**1,587**	**2,611**	**1,643**

(millions of euro)	**12/31/2008**	**12/31/2007**
Future net lease payments (minimum lease payments)	2,442	2,611
Interest portion	(855)	(968)
Present value of lease payments	**1,587**	**1,643**
Finance lease liabilities	1,987	2,071
Financial receivables for lessors net investments	(400)	(428)
Total net finance lease liabilities	**1,587**	**1,643**

Note 6 - Tangible assets (owned and under finance leases)

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Note 7 Other non-current assets

Other non-current assets increased by euro 2,548 million compared to December 31, 2007 and include:

(millions of euro)	12/31/2008	*of which Financial Instruments*	12/31/2007	*of which Financial Instruments*
Investments accounted for using the equity method:				
Associates	435		446	
Joint ventures	61		38	
	496		**484**	
Other investments	**57**	*57*	**57**	*57*
Securities, financial receivables and other non-current financial assets:				
Securities other than investments	15	*15*	9	*9*
Financial receivables and other non-current financial assets	2,648	*2,648*	686	*686*
	2,663	*2,663*	**695**	*695*
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables	170	99	382	275
Medium/long-term prepaid expenses	524		484	
	694	*99*	**866**	*275*
Deferred tax assets (*)	**987**		**247**	
Total	**4,897**	**2,819**	**2,349**	**1,027**

(*) Analyzed in the Note Deferred tax assets and deferred tax liabilities .
Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Investments in associates accounted for using the equity method are detailed as follows:

(millions of euro)	12/31/2006	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	12/31/2007
ETECSA	**311**			(14)		**297**
Italtel Group	**43**					**43**
Tiglio I	**69**		(6)	(3)		**60**
Tiglio II	**4**					**4**
Other	**44**	1	(1)	2	(4)	**42**
Total	**471**	**1**	**(7)**	**(15)**	**(4)**	**446**

(millions of euro)	12/31/2007	Investments	Sales and reimbursements of capital	Valuation using equity method	Reclassifications and other changes	12/31/2008
ETECSA	**297**			16		**313**
Italtel Group	**43**			(4)		**39**
Tiglio I	**60**			(6)		**54**
Tiglio II	**4**					**4**
Other	**42**		(2)	(6)	(9)	**25**
Total	**446**		**(2)**		**(9)**	**435**

The companies Luna Rossa Challenge 2007, Luna Rossa Trademark and Mia Economia (with a carrying amount of a total of euro 9 million) were reclassified to Discontinued operations/Non-current assets held for sale after agreements were signed for their sale. Their sale has been finalized in the early months of 2009.

Note 7 - Other non-current assets

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The value of the investment in ETECSA includes euro 64 million of residual goodwill which arose when the company was acquired and is the difference between the investment value and corresponding share of net equity; furthermore, Exchange differences on translating foreign operations in the Equity attributable to the equity holders of the Parent include a cumulative negative amount of euro 31 million relating to ETECSA.

The investment in Italtel Group S.p.A. is carried under investments in associates accounted for using the equity method because, although owning a 19.37% stake (below 20% of the voting rights exercisable), Telecom Italia S.p.A. is able to exercise a significant influence through the rights attributed to it by the shareholders agreements.

Investments accounted for using the equity method include the share of profits (losses) for the year and exchange differences on translating the financial statements of foreign operations. The main impact on the 2008 consolidated income statement particularly came from ETECSA (+ euro 53 million), Tiglio I and Tiglio II (- euro 7 million) and other companies (- euro 6 million) and in 2007 from ETECSA (+ euro 49 million), Tiglio I and Tiglio II (+ euro 11 million) and other companies (+ euro 1 million). Aggregate 2008 and 2007 data relating to the major associates, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The share of profits (losses) for the year for consolidated groups, refer to amounts attributable to the Parent and the Minority Interest.

(millions of euro)	**2008**	**2007**
Total assets	868	950
Total liabilities	480	544
Revenues	260	320
Profit (loss) for the year	41	55

Investments in joint ventures accounted for using the equity method include the investments in Sofora Telecomunicaciones S.A. and Consorzio Tema Mobility in which 50% stakes are held. The value of the investment in Sofora Telecomunicaciones S.A. increased from euro 38.3 million to euro 60.6 million as a result of the share of the 2008 result (euro 24 million) net of the negative change of the exchange differences on the translation of foreign activities (euro 7 million at December 31, 2008, euro 5 million at December 31, 2007).

The most significant aggregate 2008 and 2007 data, prepared in accordance with IFRS, based on the Telecom Italia Group s share, is reported below. The profit (loss) for the year includes, for consolidated groups, the share attributable to the Parent and the Minority Interest.

	2008			**2007**		
	Joint ventures data		***TELECOM ITALIA GROUP S SHARE***	***Joint ventures data***		***TELECOM ITALIA GROUP S SHARE***
(millions of euro)	***Sofora group***	***Other companies***	***50%***	***Sofora group***	***Other companies***	***50%***
Non-current assets	1,458		729	1,429	9	719
Current assets	681	1	341	647	2	325
Total assets	**2,139**	**1**	**1,070**	**2,076**	**11**	**1,044**
Non-current liabilities	570		285	717	7	362
Current liabilities	937		468	904	4	454
Total liabilities	**1,507**		**753**	**1,621**	**11**	**816**
Revenues	2,283		1,142	2,125	3	1,064
EBITDA	674		337	687	3	345
Operating profit (EBIT)	407		204	383	1	192
Profit before taxes	315		157	254		127
Profit (loss) for the year	**195**		**98**	**202**		**101**

attributable to Minority Interest	147	74	152	76
attributable to equity holders of the Parent	48	24	50	25

The list of companies accounted for using the equity method is presented in the Note List of companies of the Telecom Italia Group .

Note 7 - Other non-current assets

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Other investments refer to the following:

(millions of euro)	12/31/2006	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	12/31/2007
Assicurazioni Generali	5					5
Capitalia	75		(75)			
Fin.Priv.	15					15
Mediobanca	267		(267)			
New Satellite Radio	7					7
Oger Telecom	375		(375)			
Sia-SSB	11					11
Other	21				(2)	19
Total	**776**		**(717)**	**..**	**(2)**	**57**

(millions of euro)	12/31/2007	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	12/31/2008
Air P TV Development Italy (*)		5				5
Assicurazioni Generali	5			(2)		3
Fin.Priv.	15					15
New Satellite Radio	7					7
Sia-SSB	11					11
Other	19	1	(1)		(3)	16
Total	**57**	**6**	**(1)**	**(2)**	**(3)**	**57**

(*) Now named DAHLIA TV S.r.l.

Financial receivables and other non-current financial assets are composed as follows:

(millions of euro)	12/31/2008	12/31/2007
Financial receivables for lessors net investments	257	279
Loans to employees	59	67
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	2,310	286
Other financial receivables	22	54
Total	**2,648**	**686**

Financial receivables for lessors net investments refer to:

- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;

- medium/long-term portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the performance of accessory services under the full rent formula.

The total amount (non-current and current portion) of these receivables is as follows:

(millions of euro)	12/31/2008	12/31/2007
Non-current portion	257	279

Current portion	143	149
Total	**400**	**428**

Hedging derivatives relating to hedged items classified in non-current assets and liabilities of a financial nature refer to the mark-to-market component of the derivatives.

Additional information is provided in the Note Derivatives .

Note 7 - Other non-current assets

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Miscellaneous receivables and other non-current assets amount to euro 694 million (euro 866 million at December 31, 2007), of which euro 99 million (euro 275 million at December 31, 2007) refers to receivables included in financial assets, disclosed as required by IFRS 7. They include:

- the fair value of the two call options on 50% of Sofora Telecomunicaciones S.A. share capital for euro 70 million (euro 260 million at December 31, 2007);
- medium/long-term prepaid expenses relating to the deferral of costs in connection with the recognition of revenues of euro 524 million (euro 484 million at December 31, 2007).

Note 8 Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

(millions of euro)	12/31/2008	12/31/2007
Deferred tax assets	987	247
Deferred tax liabilities	(386)	(586)
Total	**601**	**(339)**

Since in the financial statements the presentation of deferred tax assets and liabilities takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

(millions of euro)	12/31/2008	12/31/2007
Deferred tax assets	1,179	1,076
Deferred tax liabilities	(578)	(1,415)
Total	**601**	**(339)**

The change in deferred tax assets and liabilities is a positive euro 940 million and is due to:

- utilizations and new accruals of deferred tax assets and liabilities which gave rise to a tax benefit in the income statement for the year ended December 31, 2008 of euro 1,054 million. This was generated principally by the deferred tax adjustment of euro 1,048 million following the tax realignment carried out by the Parent, Telecom Italia, and its subsidiaries, pursuant to Law 244 dated December 24, 2007;
- tax effect taken directly to equity in 2008 for a charge of euro 106 million mainly referring to the fair value adjustment to derivatives;
- exchange losses for euro 8 million.

Note 8 - Deferred tax assets and deferred tax liabilities

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The temporary differences which make up this line item at December 31, 2008 and 2007 are the following:

(millions of euro)	12/31/2008	12/31/2007
Deferred tax assets:		
- Derivatives	201	38
- Provision for bad debts	187	231
- Provisions for risks and charges	169	163
- Sale and leaseback transactions on properties	144	138
- Provision for pension fund integration (under Law 58/92)	103	133
- Tax loss carryforwards	80	11
- Provision for restoration costs	67	58
- Recognition of revenues	61	81
- Capital grants	25	32
- Unrealized intragroup gains	15	16
- Impairment losses on investments and other	4	11
- Other deferred tax assets	123	164
Total	**1,179**	**1,076**
Deferred tax liabilities:		
- Derivatives	(339)	(87)
- Business combinations	(52)	(64)
- Deferred gains	(47)	(83)
- Accelerated depreciation	(38)	(1,048)
- Discounting of provision for employee severance indemnities	(37)	(45)
- Notes and bonds	(12)	(18)
- Other deferred taxes liabilities	(53)	(70)
Total	**(578)**	**(1,415)**
Total net deferred tax assets (liabilities)	**601**	**(339)**

At December 31, 2008, the Group has unused tax loss carryforwards for euro 5,226 million, mainly referring to some foreign companies such as the Tim Participações group, the Latin American Nautilus group and the companies Telecom Italia Sparkle Luxembourg, Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

Year of expiration	(millions of euro)
2009	13
2010	232
2011	185
2012	17
2013	11
Expiration after 2013	18
Without expiration	4,750
Total unused tax loss carryforwards	**5,226**

Tax loss carryforwards which are considered in the calculation of deferred tax assets amount to euro 279 million at December 31, 2008 (euro 45 million at December 31, 2007) and mainly refer to the Tim Participações group, the BBNed group and the companies Telecom Italia International and HanseNet.

Deferred tax assets of euro 1,525 million (euro 2,040 million at December 31, 2007) have not been recognized on euro 4,947 million of tax loss carryforwards since, at this time, their recoverability is not considered probable.

At December 31, 2008, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries and associates, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.

Note 8 - Deferred tax assets and deferred tax liabilities

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Note 9 Inventories

Inventories increased by euro 71 million compared to December 31, 2007. The composition is as follows:

(millions of euro)	12/31/2008	12/31/2007
Raw materials and supplies	7	7
Work in progress and semifinished products	7	8
Finished goods	365	293
Total	**379**	**308**

Inventories include mainly those of refer to Telecom Italia S.p.A. for euro 115 million (euro 98 million at December 31, 2007) and the companies in the Brazil Business Unit for euro 169 million (euro 107 million at December 31, 2007). They mainly consist of equipment, handsets and relative fixed-line and mobile telecommunications accessories. The increase is correlated to the need to guarantee the availability of products, primarily for mobile services, which are the center of sales campaigns and, with regard to the Brazil Business Unit, agreements with suppliers for the advance purchase of handsets at a convenient price, taking into account the reduction in the value of the Brazilian real against the U.S. dollar. Another euro 71 million (euro 78 million at December 31, 2007) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

Inventories written down in 2008 total euro 24 million (euro 27 million in 2007) and mainly refer to the adjustment of mobile handsets to estimated realizable value.

No inventories are pledged as collateral.

Note 10 Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets decreased by euro 987 million compared to December 31, 2007 and are composed of the following:

(millions of euro)	12/31/2008	*of which Financial Instruments*	12/31/2007	*of which Financial Instruments*
Amounts due on construction contracts	**26**		**23**	
Trade receivables:				
Receivables from customers	4,780	*4,780*	5,446	*5,446*
Receivables from other telecommunications operators	1,693	*1,693*	1,864	*1,864*
	6,473	*6,473*	**7,310**	*7,310*
Miscellaneous receivables and other current assets:				
Other receivables	1,198	*510*	1,294	*557*
Trade and miscellaneous prepaid expenses	404		461	
	1,602	*510*	**1,755**	*557*
Total	**8,101**	*6,983*	**9,088**	*7,867*

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The following analysis presents the ageing of trade and miscellaneous receivables and other current assets at December 31, 2008 and December 31, 2007.

Note 9 - Inventories Note 10 - Trade and miscellaneous receivables and other current assets

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(millions of euro)	12/31/2008	Not past due	Past due: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	**6,983**	5,261	439	333	259	691

(millions of euro)	12/31/2007	Not past due	Past due: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	**7,867**	5,866	761	385	403	452

The increase in amounts past more than 365 days compared to December 31, 2007 mainly refers to positions with other telecommunications operators following the suspension of collections and payments in connection with pending disputes; the corresponding payable positions have also increased.

Trade receivables amount to euro 6,473 million (euro 7,310 million at December 31, 2007) and are net of the provision for bad debts of euro 828 million (euro 1,064 million at December 31, 2007).

Trade receivables specifically refer to the Parent, Telecom Italia, (euro 4,930 million) and the Brazil Business Unit (euro 807 million).

The reduction is principally due to the contraction of sales, actions implemented for the management of receivables and an improvement in collection capacity, in addition to the reduction in value of the Brazilian real against the euro.

Trade receivables include euro 18 million (euro 18 million at December 31, 2007) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU. Movements in the provision for bad debts are as follows:

(millions of euro)	2008	2007
At January 1	**1,064**	**791**
Discontinued operations	(12)	
Accruals charged to income statement	585	722
Utilization	(776)	(452)
Exchange differences and other movements	(33)	3
At December 31	**828**	**1,064**

The provision relates to individual writedowns for euro 437 million (euro 600 million at December 31, 2007) and general writedowns for euro 391 million (euro 464 million at December 31, 2007).

Accruals are made for specific credit positions with particular risks. Amounts accrued in respect of receivable positions without such features are effected on the basis of the average estimated uncollectibility by customer segment.

The bad debt charge for 2008 takes into account both the assessment of credit risks on consumer and business customers as a result of the recent change in the macroeconomic scenario and recovery actions undertaken to collect receivables.

In 2007, the Domestic Business Unit recorded higher bad debt charges to cover past due receivables from mobile service customers with postpaid contracts and receivables resulting from contracts terminated with fixed-line customers (doubtful receivables).

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Other receivables amount to euro 1,198 million (euro 1,294 million at December 31, 2007), and are net of a provision for bad debts of euro 60 million (euro 50 million at December 31, 2007). Details are as follows:

(millions of euro)	12/31/2008	12/31/2007
Advances to suppliers	99	76
Receivables from employees	27	40
Tax receivables	239	268
Sundry receivables	833	910
Total	**1,198**	**1,294**

Sundry receivables mainly include:

- the amount still due from the Ministry of Economy and the Ministry of Communications (euro 100 million) for the legal interest earned up to the date of the refund of the principal portion of the TLC operating fee for the year 1999. In accordance with the ruling notified on February 10, 2009, the TAR of Lazio court approved Telecom Italia s enforcement request submitted in November 2008, being in compliance, and ruled that payment should be made for the above legal interest;

- the receivables from factoring companies (euro 357 million) largely for the assignment of receivables due from dealers on the sale of mobile equipment;

- the receivable for the Italian Universal Service (euro 56 million);

- the receivables from the Italian state and the European Union (euro 32 million) for grants regarding research and training projects.

Trade and miscellaneous prepaid expenses principally pertain to building leases, rentals and maintenance as well as the deferral of costs referring to the recognition of revenues.

Note 11 Current income tax receivables

Current income tax receivables amount to euro 73 million (euro 101 million at December 31, 2007) and mainly include the receivables of the Brazilian companies (euro 46 million), as well as IRES and IRAP taxes paid in 2008 by Telecom Italia Sparkle in excess of the actual current IRES and IRAP taxes due (euro 20 million).

Note 12 Investments (current assets)

Investments in current assets amount to euro 39 million and relate to the investment held in Entel Bolivia S.A. The investment was excluded from the scope of consolidation and classified as an available-for-sale financial asset under current assets after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the company s shares. The amount recognized for the investment corresponds to the carrying amount, considered recoverable, which this investment had in the consolidated financial statements at March 31, 2008; however, Exchange differences on translating foreign operations in the Equity attributable to equity holders of the Parent include a cumulative negative amount of euro 11 million relating to Entel Bolivia S.A. and its subsidiary Datacom S.A. (Entel Bolivia group).

Note 11 - Current income tax receivables Note 12 - Investments (current assets)

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The data used for purposes of the consolidation of the Entel Bolivia group are presented as follows:

(millions of euro)	Year 2008 (3 months)	Year 2007
Revenues	**52**	210
EBITDA	**24**	98
Profit for the period/year including the amount attributable to Minority Interest	**10**	60

(millions of euro)	12/31/2007
Net financial debt (liquidity position:)	(101)

Additional details on the nationalization of Entel Bolivia and the resulting dispute with the Bolivian Government is provided in the Note Contingent assets and liabilities, commitments and guarantees .

Note 13 Securities other than investments (current assets)

Securities other than investments in current assets decreased by euro 205 million compared to December 31, 2007. Details are as follows:

(millions of euro)	12/31/2008	12/31/2007
Held-to-maturity financial assets		
Unlisted securities other than investments held-to-maturity		31
Available-for-sale financial assets		
Listed securities other than investments available-for-sale, due after 3 months	**74**	247
Financial assets at fair value through profit or loss		
Listed securities other than investments held-for trading	**111**	112
Total	**185**	**390**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Listed securities other than investments available-for-sale, due after 3 months refer to bonds issued by counterparts with at least an A-rating and with different maturity dates but all are actively traded and, therefore, readily convertible into cash.

Listed securities other than investments held for trading refer to investments in a Belgian-registered monetary SICAV for euro 111 million.

Note 14 Financial receivables and other current financial assets

Financial receivables and other current financial assets increased by euro 114 million compared to December 31, 2007. Details are as follows:

(millions of euro)	12/31/2008	12/31/2007
Financial receivables for lessors net investments	143	149
Other short-term financial receivables	46	30
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	180	186
Non-hedging derivatives	122	12
Total	**491**	**377**

Note 13 - Securities other than investments (current assets)
Note 14 - Financial receivables and other current financial assets

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Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Financial receivables for lessors net investments refer to:

- the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- the current portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering of accessory services under the full rent formula.

Other short-term financial receivables include euro 13 million of receivables from employees and euro 27 million of receivables from Aree Urbane S.r.l..

Hedging derivatives relating to hedged items classified as current assets of a financial nature refer to accrued income on derivatives. Additional details are provided in the Note Derivatives .

Note 15 Cash and cash equivalents

Cash and cash equivalents decreased by euro 1,057 million compared to December 31, 2007. Details are as follows:

(millions of euro)	12/31/2008	12/31/2007
Liquid assets with banks, financial institutions and post offices	4,418	6,267
Checks, cash and other receivables and deposits for cash flexibility	9	3
Receivables from the sale of securities convertible to cash within 3 months	493	
Securities other than investments (due within 3 months)	496	203
Total	**5,416**	**6,473**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

The decrease in cash and cash equivalents from the end of 2007 should mainly be viewed in relation to the repayment of liabilities which became due during 2008 for amounts which are higher than the amount of debt refinanced.

The different technical forms used for the investment of liquidity as of December 31, 2008 can be further analyzed as follows:

- maturities: all deposits have a maximum maturity date of two months;
- counterpart risks: deposits are made with first-rate banks and financial institutions that have a high credit rating of not less than A;
- country risk: the geographic location of deposits is principally in major European markets.

Receivables from the sale of securities refer entirely to repurchase agreement operations on Italian government securities made by Telecom Italia S.p.A. with Mediobanca as the counterpart. Securities other than investments (due within 3 months) include euro 100 million (euro 197 million at December 31, 2007) of euro commercial paper, maturing within two months, with issuers that all have A-ratings and are located in Luxembourg, and euro 391 million of Brazilian certificates of deposit *(Certificado de Depósito Bancário)* with expiration dates of less than three months, taken out with local banking and financial institutions with a credit rating of at least AA.

Note 15 - Cash and cash equivalents

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Note 16 Discontinued operations/non-current assets held for sale

In the balance sheet at December 31, 2008, Discontinued operations/Non-current assets held for sale refer to investments in Luna Rossa Challenge 2007, Luna Rossa Trademark and Mia Economia for a total value of euro 9 million. These companies were reclassified here after signing the agreements for their sale. The sale has been finalized in the early months of 2009.

With regard to Luna Rossa Challenge 2007 and Luna Rossa Trademark, in September 2008, a commitment was signed for the sale of the stakes held by Telecom Italia (49%) by March 15, 2009. The sales price is euro 13 million and will generate a gross gain of euro 4 million.

The sale of Liberty Surf group (operating in the BroadBand segment in France), which was classified in Discontinued operations in the early months of 2008, was finalized on August 26, 2008.

The following movements took place during 2007 and 2008:

(millions of euro)	12/31/2006	Disposals	12/31/2007	Reclassifications	Disposals	12/31/2008
Brasil Telecom Participações	22	(22)				
Solpart Participações	213	(213)				
Liberty Surf				249	(249)	
Luna Rossa Challenge 2007				9		9
Luna Rossa Trademark				°°		°°
Mia Economia				°°		°°
Total	**235**	**(235)**		**258**	**(249)**	**9**

Divestitures in 2008

Liberty Surf Group

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.

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 euro 10 million for the post-closing price adjustment on the net financial position and 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 euro 800 million (less euro 10 million for the post-closing price adjustment) and a Net financial debt of the company estimated at the time of sale at approximately euro 300 million, are:

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

- a positive impact on the consolidated income statement of euro 160 million, 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 euro 15 million and the contract period is 12 months and can be extended to 18 months.

Note 16 - Discontinued operations/non-current assets held for sale

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Divestitures in 2007

Brasil Telecom Participações

On November 29, 2007, Telecom Italia International finalized the sale of the preferred shares of Brasil Telecom Participações S.A. to JP Morgan S.A..

The sales price was euro 48 million, with a consequent reduction in net financial debt and a positive impact on the profit of the Group of euro 22 million, net of taxes on the gain (euro 5 million).

Solpart Participações

On December 5, 2007, Brasilco S.r.l., a company held in trust by Credit Suisse for the exclusive benefit of Telecom Italia International, sold its investment in Solpart Participações S.A. (Solpart), equal to a 38% stake in share capital, to Techold Participações S.A. (Techold), Brasilco s co-shareholder in Solpart, for consideration of USD 515 million.

The execution of the transaction and the simultaneous collection of the proceeds led to a reduction in the net financial debt of the Telecom Italia Group of euro 360 million and a positive impact on the profit of the Group of euro 188 million, net of transaction costs and taxes. There was also a positive impact from hedging the exchange risk and the reversal of the Reserve for exchange differences on translation to the income statement.

The impact on the income statement from Discontinued operations/non-current assets held for sale can be represented as follows:

(millions of euro)		**2008**	**2007**
Economic impact from Discontinued operations/Non-current assets held for sale:			
Revenues		310	394
Other income		1	11
Operating expenses		(355)	(456)
Amortization and depreciation, capital gains/losses and impairment losses on non-current assets		(116)	(140)
EBIT		**(160)**	**(191)**
Finance income (expenses)		(28)	(32)
Loss before tax from Discontinued operations/Non-current assets held for sale		**(188)**	**(223)**
Income tax expense			1
Loss after tax from Discontinued operations/Non-current assets held for sale	**(A)**	**(188)**	**(222)**
Economic effect on the selling companies:			
Net gain in connection with the sale of Liberty Surf		160	
Release of provisions			40
Accruals made in respect of Discontinued operations		(1)	(5)
Income tax expense			1
	(B)	**159**	**36**
Loss from Discontinued operations/Non-current assets held for sale	**(A+B)**	**(29)**	**(186)**

The impact on the income statement refers to the following companies sold:

(millions of euro)	**2008**	**2007**
- Tim Hellas	(1)	39
- Gruppo Buffetti		(2)
- Digitel Venezuela		(1)
- Liberty Surf group	(28)	(222)
Total	**(29)**	**(186)**

Note 16 - Discontinued operations/non-current assets held for sale

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In the cash flow statement, the net cash flows of Liberty Surf group can be summarized as follows:

(millions of euro)	12/31/2008	12/31/2007
Discontinued operations/Non-current assets held for sale		
Cash flows from operating activities	(139)	(82)
Cash flows from investing activities	(175)	153
Cash flows from financing activities	304	1
Total	**(10)**	**72**

Note 17 Equity

Equity includes:

(millions of euro)	12/31/2008	12/31/2007
Equity attributable to equity holders of the Parent	26,126	25,922
Equity attributable to Minority Interest	730	1,063
Total	**26,856**	**26,985**

The movements in **Share capital** during 2008 are presented in the following tables:

Reconciliation between the number of shares outstanding at December 31, 2007 and December 31, 2008

Number of shares par value euro 0.55 each		At 12/31/2007	Shares issued as a result of bond conversions/ buybacks of treasury shares	At 12/31/2008	% of share capital
Ordinary shares issued	(a)	13,380,776,313	19,160	13,380,795,473	68.95%
Less: treasury shares	(b)	(125,816,387)	(25,000,000)	(150,816,387)	
Outstanding ordinary shares	(c)	13,254,959,926	(24,980,840)	13,229,979,086	
Issued and outstanding Savings shares	(d)	6,026,120,661		6,026,120,661	31.05%
Total Telecom Italia S.p.A. shares issued	**(a+d)**	**19,406,896,974**	19,160	**19,406,916,134**	**100%**
Total Telecom Italia S.p.A. shares outstanding	**(c+d)**	**19,281,080,587**	(24,980,840)	**19,256,099,747**	

Reconciliation between the value of shares outstanding at December 31, 2007 and December 31, 2008

(millions of euro)		Share capital at 12/31/2007	Change in share capital as a result of bond conversions/Buybacks of treasury shares	Share capital at 12/31/2008
Ordinary shares issued	(a)	7,360		7,360
Less: treasury shares	(b)	(69)	(14)	(83)

Outstanding ordinary shares	(c)	7,291	(14)	7,277
Issued and outstanding Savings shares	(d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued	**(a+d)**	**10,674**		**10,674**
Total Telecom Italia S.p.A. share capital outstanding	**(c+d)**	**10,605**	(14)	**10,591**

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Between September 12, and 23, 2008, Telecom Italia bought back 25,000,000 ordinary shares to service the free Telecom Italia ordinary shares granting plan Performance Share Granting plan for top management of Telecom Italia or its subsidiaries, approved by the shareholders meeting held on April 16, 2007.

The total amount of ordinary treasury shares held at December 31, 2008, euro 498 million, was recorded for the part relating to the par value (euro 83 million) as a deduction from share capital issued and, for the remaining amount, as a deduction from Other reserves.

Share capital information

The ordinary and savings shares of the Parent, Telecom Italia, are listed on Borsa Italiana S.p.A. and on the NYSE in the form of American Depositary Shares (ADS), each (ADS) corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company. The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an efficient access to external sources of financing (taking advantage of the best opportunities offered on the euro, U.S. dollar and Pound sterling financial markets to minimize costs) and an efficient process of renegotiating maturities aimed at reducing the refinancing risk.

The remuneration of risk capital of the Group is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Rights of savings shares

The rights of savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;

- after assigning preferred dividends to the savings shares, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;

- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and is added to the preferred dividends for the next two successive years;

- in the case of the distribution of reserves, the savings shares have the same rights as the ordinary shares. Moreover, the shareholders meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;

the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;

upon the wind-up of Telecom Italia S.p.A. the savings shares have a pre-emptive right to the reimbursement of capital equal to the entire par value;

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in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the extraordinary session of the shareholders meeting called for that purpose within two months of being excluded from negotiations.

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Paid-in capital is euro 1,689 million at December 31, 2008 and unchanged compared to December 31, 2007.

Exchange differences on translating foreign operations show a positive balance of euro 218 million at December 31, 2008 and decreased by euro 616 million compared to December 31, 2007. These mainly refer to exchange differences in euro from the translation of the financial statements of the Brazil Business Unit.

Other reserves and retained earnings (accumulated losses), including profit for the year amount to euro 13,628 million (euro 12,794 million at December 31, 2007) and comprise:

gains (losses) recognized directly in Other equity reserves for a positive euro 417 million at December 31, 2008 (a positive euro 192 million at December 31, 2007) which include:

the Reserve for hedging instruments , a positive euro 439 million at December 31, 2008 (a positive euro 204 million at December 31, 2007). This reserve is expressed net of deferred tax liabilities of euro 180 million (euro 81 million at December 31, 2007) and mainly includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements;

the Reserve for available-for-sale financial assets , a negative euro 22 million (a negative euro 12 million at December 31, 2007). It includes the unrealized losses relating to the investments in Assicurazioni Generali (-euro 1 million) and Fin. Priv. (-euro 1 million) by the Parent, Telecom Italia, as well as the unrealized losses on the securities portfolio of Telecom Italia Finance (-euro 36 million) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (euro 16 million). This reserve is expressed net of deferred tax liabilities of euro 6 million (at December 31, 2007, it was expressed net of deferred tax assets of euro 2 million);

other reserves and retained earnings (accumulated losses), including profit for the year amount to euro 13,211 million at December 31, 2008 and increased by euro 609 million compared to December 31, 2007. The change is mainly due to the sum of the following:

profit for the year attributable to the equity holders of the Parent, equal to euro 2,214 million (euro 2,448 million in 2007);

dividends approved for euro 1,609 million (euro 2,766 million in 2007).

Dividends payable to ordinary and savings shareholders were equal, respectively, to euro 1,061 million (euro 0.0800 per share) and euro 548 million (euro 0.0910 per share).

Equity attributable to Minority Interest of euro 730 million (euro 1,063 million at December 31, 2007), includes the Profit for the year attributable to Minority Interest of euro 1 million (profit of euro 7 million in 2007). The reduction from December 31, 2007 is basically due to the sum of dividends declared (euro 59 million), the negative change in Exchange differences on translating foreign operations of - euro 162 million) and the negative change in the scope of consolidation (-euro 117 million) after the exclusion of Entel Bolivia.

The Equity attributable to Minority Interest consists mainly of the equity attributable to the minority interests of the Brazil Business Unit and the Media Business Unit.

Note 17 - Equity

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Future potential changes in share capital

The following table shows the future potential changes in share capital by reason of the conversion of bonds and the exercise of options in the Stock option plans that remain outstanding at December 31, 2008

	Outstanding bonds/ equivalent option rights at 12/31/2008	Conversion/ grant ratio	Maximum number of shares issuable	Nominal/ par value (thousands of euro)	Paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases approved (ord. sh.)						
Bonds Telecom Italia 1.5% 2001 - 2010	484,836,577	0.471553	228,626,142	125,744	359,092	
Stock Option Plan 2002 Top	4,050,001.00	3.300871	13,368,523	7,353	29,920	2.788052
Stock Option Plan 2002	9,764,104.00	3.300871	32,229,823	17,726	76,439	
of which						
grants March-2002	*9,645,104.00*	*3.300871*	*31,837,023*	*17,510*	*75,709*	*2.928015*
grants August-2002	*119,000.00*	*3.300871*	*392,800*	*216*	*730*	*2.409061*
Stock Option Plans 2003-2005 - ex-TIM	1,199,800.00	1.73	2,075,653	1,142	4,941	2.930636
Total additional increases approved (ord. sh.)			**276,300,141**	**151,965**	**470,392**	
Additional increases not yet approved (ord. sh.)			**1,600,000,000**	**880,000**		

Additional details on Stock option plans are disclosed in the Note Stock option and Performance Share Granting Plans of the Telecom Italia Group .

Furthermore, the Telecom Italia S.p.A. shareholders meeting held on May 6, 2004 also granted the directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive right, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the board of directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the board is not fully subscribed to by the deadline date set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

Authorizations for the issue of convertible bonds and the purchase of treasury shares

The board of directors has the right to issue at one or more times and for five years, starting May 6, 2004, convertible bonds for a maximum amount of euro 880,000,000.

The ordinary shareholders meeting of Telecom Italia S.p.A. held on April 16, 2007 passed a resolution to authorize, for the maximum period allowed by the applicable law starting from the date of the shareholders resolution, the purchase, at one or more times and at any date, of Telecom Italia S.p.A. ordinary shares for a maximum of 25,000,000 ordinary shares and thus up to 0.129% of share capital.

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This authorization for the purchase of treasury shares, in effect until October 16, 2008, is in relation to the implementation, approved by the board of directors in its meeting held August 8, 2008, of the plan for granting free Telecom Italia S.p.A. ordinary shares to individuals who hold key roles as employees or consultants of Telecom Italia S.p.A. or subsidiaries, approved by the same shareholders meeting held on April 16, 2007.

Between September 12 and 23, 2008, Telecom Italia purchased 25,000,000 ordinary shares. The Telecom Italia S.p.A. shareholders meeting held on April 14, 2008 also passed a resolution to authorize, for the maximum period allowed by the applicable law starting from the date of the shareholders resolution, the purchase, at one or more times and at any date, of Telecom Italia S.p.A. ordinary shares for a maximum of 11,400,000 ordinary shares and thus up to 0.059% of share capital.

This authorization for the purchase of treasury shares, in effect until October 14, 2009, is in relation to the implementation, approved by the board of directors in its meeting held April 15, 2008, of the stock option plan reserved for the Executive Officers of Telecom Italia S.p.A. approved by the same ordinary shareholders meeting held on April 14, 2008.

The board of directors in its meeting of August 8, 2008 approved the start of the purchase of ordinary treasury shares relating to both the above authorizations.

The price for the purchases shall be between a minimum and a maximum corresponding to the weighted average official stock prices of ordinary shares registered by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of purchase, respectively increased or decreased by 10%. The same limits shall be applied to the definition of the total cost of any derivatives.

The purchase of treasury shares shall in any case take place within the limits of the unrestricted reserves, as shown in the most recent financial statements approved at the time the purchase is carried out. The purchases shall be made on regulated markets, according to the manner allowed by the regulations and laws in force.

Consequently, of the aforementioned purchase program, there remains a maximum of 11,400,000 ordinary shares to be effected not later than October 14, 2009.

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On the basis of the motion put forward by the board of directors meeting held on February 27, 2009, the profit for the year 2008 resulting from the separate financial statements of the Parent, Telecom Italia S.p.A. shall be appropriated as dividends for euro 1.049 million for distribution to the shareholders as follows:

- euro 0.050 for each ordinary share
- euro 0.061 for each savings share

gross of withholdings as established by law; undistributed profit will be appropriated to retained earnings.

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Note 18 Financial liabilities (current and non-current)

Financial liabilities are composed as follows:

(millions of euro)		12/31/2008	12/31/2007
Financial payables (medium/long-term):			
Bonds		25,139	27,048
Convertible bonds		541	511
		25,680	**27,559**
Amounts due to banks		5,803	5,543
Other financial payables		453	197
		31,936	**33,299**
Finance lease liabilities (medium/long-term)		1,713	1,809
Other financial liabilities (medium/long-term)			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,877	1,942
Deferred income		1	1
		2,878	**1,943**
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**(A)**	**36,527**	**37,051**
Financial payables (short-term):			
Bonds		4,490	4,514
Convertible bonds		7	7
		4,497	**4,521**
Amounts due to banks		883	1,049
Other financial payables		346	373
		5,726	**5,943**
Finance lease liabilities (short-term)		274	262
Other financial liabilities (short-term)			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		236	363
Non-hedging derivatives		25	9
Deferred income		6	8
		267	**380**
TOTAL CURRENT FINANCIAL LIABILITIES	**(B)**	**6,267**	**6,585**
TOTAL FINANCIAL LIABILITIES	**(C)=(A+B)**	**42,794**	**43,636**

Further details on Financial Instruments are provided in the Note Supplementary disclosures on financial instruments .

Bonds are composed as follows:

(millions of euro)	12/31/2008	12/31/2007
Non-current portion	25,139	27,048
Current portion	4,490	4,514

Total carrying amount	**29,629**	**31,562**
Fair value adjustment and measurement at amortized cost	(1,383)	(850)
Total nominal repayment amount	**28,246**	**30,712**

The nominal repayment amount totals euro 28,246 million and decreased by euro 2,466 million compared to December 31, 2007 (euro 30,712 million), mainly due to the balance between repayments and new issues during 2008 by Telecom Italia S.p.A., Telecom Italia Finance S.A. and Telecom Italia Capital S.A., and the difference in the USD / euro exchange rate.

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The following table lists the bonds issued by companies of the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount, net of bond buybacks, and at market value:

Currency	Amount (million)	Nominal repayment amount (millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/08 (%)	Market value at 12/31/08 (millions of euro)
Bonds issued by Telecom Italia S.p.A.								
Euro	110	110	3-month Euribor+ 0.60%	4/8/04	3/30/09	100	99.100	109
Euro	850	850	3-month Euribor+ 0.20%	6/7/07	6/7/10	99.915	91.500	778
Euro	750	750	4.500%	1/29/04	1/28/11	99.560	95.512	716
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	98.000	1,225
Euro	1,000	1,000	3-month Euribor +0.53%	12/6/05	12/6/12	100	81.782	818
Euro	500	500	3-month Euribor +0.63%	7/19/07	7/19/13	100	83.393	417
Euro	673	673	4.750%	5/19/06	5/19/14	99.156	86.078	579
Euro	120	120	3-month Euribor+ 0.66%	11/23/04	11/23/15	100	78.620	94
GBP	500	525	5.625%	6/29/05	12/29/15	99.878	84.957	446
Euro	400	400	3-month Euribor +0.79%	6/7/07	6/7/16	100	68.139	273
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	78.864	986
GBP	850	892	6.375%	6/24/04	6/24/19	98.850	82.204	734
Euro	348	348	6-month Euribor (base 365)	1/1/02	1/1/22	100	100	348
GBP	400	420	5.875%	5/19/06	5/19/23	99.622	71.571	301
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	61.791	414
	Subtotal	**9,758**						**8,238**
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,450	1,450	5.150% (b)	2/9/99	2/9/09	99.633	100.074	1,451
Euro	2,103	2,103	6.575% (c)	7/30/99	7/30/09	98.649(*)	100.997	2,124
Euro	138,83	138,83	3-month Euribor +1.30%	6/12/08	6/14/10	100	95.480	133
Euro	2,000	2,000	7.500% (a)	4/20/01	4/20/11	99.214	99.750	1,995
Euro	1,000	1,000	7.250%	4/24/02	4/24/12	101.651(*)	100.028	1,000
Euro	850	850	6.875%	1/24/03	1/24/13	99.332	95.874	815
JPY	20,000	159	3.550%	4/22/02	5/14/32	99.250	75.125	119
Euro	1,015	1,015	7.750%	1/24/03	1/24/33	109.646(*)	87.248	886
	Subtotal	**8,716**						**8,523**
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,250	898	4.000%	10/6/04	1/15/10	99.732	94.280	847
USD	700	503	4.875%	9/28/05	10/1/10	99.898	91.477	460
USD	400	287	3-month US Libor +0.48%	9/28/05	2/1/11	100	82.486	237
USD	850	611	3-month US Libor +0.61%	7/18/06	7/18/11	100	75.000	458
USD	750	539	6.200%	7/18/06	7/18/11	99.826	91.000	490
USD	2,000	1,437	5.250%	10/29/03	11/15/13	99.742	80.967	1,164
USD	1,250	898	4.950%	10/6/04	9/30/14	99.651	79.876	717
USD	1,400	1,006	5.250%	9/28/05	10/1/15	99.370	78.000	785

USD	1,000	718,5	6.999%	6/4/08	6/4/18	100	89.918	646
USD	1,000	718,5	6.375%	10/29/03	11/15/33	99.558	72.977	524
USD	1,000	718,5	6.000%	10/6/04	9/30/34	99.081	69.168	497
USD	1,000	718,5	7.200%	7/18/06	7/18/36	99.440	76.876	552
USD	1,000	718,5	7.721%	6/4/08	6/4/38	100	91.109	655
	Subtotal	**9,772**						**8,032**
	Total	**28,246**						**24,793**

Note (a), (b), (c): see the following paragraph Mechanism describing how coupons change on step-up/step-down bonds .

(*) Weighted average issue price for bonds issued with more than one tranche.

Note 18 - Financial liabilities (current and non-current)

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The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website http://www.telecomitalia.it.

The following table lists the bonds bought back during the year by the Telecom Italia Group:

BUYBACKS	Currency	Amount (millions)
Telecom Italia S.p.A., euro 850 million 5.25% maturing 2055	Euro	180
Telecom Italia S.p.A., euro 750 million 4.75% maturing 2014	Euro	77
Telecom Italia Finance S.A., euro 1,050 million 7.75% maturing 2033	Euro	35
Telecom Italia Finance S.A., euro 1,500 million 5.15% maturing 2009	Euro	50
Telecom Italia Finance S.A., euro 2,210 million 6.575% maturing 2009	Euro	107

The following table lists the bonds repaid during the year by the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount:

Currency	Amount (million)	Nominal repayment amount (millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)
Bonds issued by Telecom Italia S.p.A.						
Euro	750	750	3-month Euribor + 0.22%	6/9/06	6/9/08	100
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.						
Euro	1,659	1,659	5.875%	1/24/03	1/24/08	99.937
Euro	499,67	499,67	3-month Euribor + 1.30%	9/14/06	9/14/08	100
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.						
USD	1,000	679	4.000%	10/29/03	11/15/08	99.953

Mechanism describing how coupons change on step-up/step down bonds in relation to a change in the rating

(a) TI Finance S.A. bonds Euro Notes : euro 2,000 million 7.50% interest, maturing April 2011

These securities carry protection for investors triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody s and S&P s, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest (or the spread above the Euribor in the case of floating-rate securities) by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.

The relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the coupon was increased by 0.25% (a first step-up occurred after Moody s rated the bonds Baa2 in August 2003, raising the coupon from 7% to 7.25%) due to a change in S&P s credit rating in March 2008 a further 0.25% increase has been implemented. The step-up was applied starting with the April 2008 coupon; the new rate is now 7.50% .

(b) TI Finance S.A. bonds: euro 1,450 million 5.150% interest, maturing February 2009

These bonds carry protection for investors triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 rating by Moody s).

At the beginning of each coupon period, this minimum rating is checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.150% .

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This current coupon can be further increased in relation to the level of the minimum rating:

- if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ratings higher than the minimum rating do not lead to increases in the current coupon.

On February 9, 2009, these bonds reached maturity and were duly repaid without any further changes in the coupon.

(c) TI Finance S.A. Bonds: euro 2,103 million 6.575% interest, maturing July 2009

These bonds carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody s).

At the beginning of each coupon period, this minimum rating is checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:

- if, at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;
- ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was introduced), the original coupon has been increased by 0.45% (reaching the current 6.575%) .

Future upgrades/downgrades in the minimum rating could cause a decrease/increase in the coupon according to the mechanism described above.

Changes in Telecom Italia s ratings

Telecom Italia s ratings at December 31, 2008 by the major Rating Agencies are the following:

S&P s	Moody s	Fitch Ratings

Most recent revision		Most recent revision		Most recent revision	
March 17, 2008		**May 12, 2008**		**December 11, 2008**	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB	Stable	Baa2	Stable	BBB	Stable

Convertible bonds can be analyzed as follows:

(millions of euro)	**12/31/2008**	**12/31/2007**
Non-current portion	541	511
Current portion	7	7
Total carrying amount	**548**	**518**
Measurement at amortized cost	26	56
Total nominal repayment amount	**574**	**574**

Note 18 - Financial liabilities (current and non-current)

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The following table shows the Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium , expressed at the nominal repayment amount and at market value:

Currency	Nominal repayment amount (millions of euro)	Coupon	New shares issue	Issue date	Maturity date	Issue price (%)	Market price at 12/31/2008 (%)	Market value at 12/31/2008 (millions of euro)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.500%	TI S.p.A.	11/23/01	1/1/10	100	113.989	553

Financial covenants / other covenants / other features of convertible bonds

The bonds listed do not contain financial covenants (e.g. ratios such as Debt/EBITDA or EBITDA/Interest) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.. None of the securities summarized here carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company s assets as collateral for loans (negative pledges). Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2008 (millions of foreign currency)	12/31/2008 (millions of euro)	12/31/2007 (millions of foreign currency)	12/31/2007 (millions of euro)
USD	13,898	9,986	12,805	8,699
GBP	1,780	1,869	1,783	2,431
BRL	2,408	740	1,946	746
JPY	54,918	435	31,922	193
EURO		29,764		31,567
		42,794		**43,636**

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

(millions of euro)	12/31/2008	12/31/2007
Up to 2.5%	441	85
From 2.5% to 5%	10,376	12,305
From 5% to 7.5%	21,379	22,521
From 7.5% to 10%	4,923	4,615
Over 10%	985	723
Accruals/deferrals, MTM and derivatives	4,690	3,387
	42,794	**43,636**

Note 18 - Financial liabilities (current and non-current)

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Instead, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euro)	12/31/2008	12/31/2007
Up to 2.5%	441	854
From 2.5% to 5%	12,339	15,463
From 5% to 7.5%	20,918	20,599
From 7.5% to 10%	3,491	2,610
Over 10%	915	723
Accruals/deferrals, MTM and derivatives	4,690	3,387
	42,794	**43,636**

The following tables show the maturities of non-current financial liabilities according to both the carrying amount (including measurements arising from fair value adjustments and amortized cost, including accrued expenses) and the expected nominal repayment amount, as defined by contract:

Maturities of Financial liabilities carrying amount[1] [2]:

	maturing by 12/31/ of the year:						
(millions of euro)	2009	2010	2011	2012	2013	After 2013	TOTAL
Bonds	4,497	2,976	4,250	3,246	2,777	12,431	30,177
Loans and other financial liabilities	684	2,176	397	173	906	5,482	9,818
Finance lease liabilities	274	209	176	134	116	1,078	1,987
Total	**5,455**	**5,361**	**4,823**	**3,553**	**3,799**	**18,991**	**41,982**
Current financial liabilities	812						812
Total	**6,267**	**5,361**	**4,823**	**3,553**	**3,799**	**18,991**	**42,794**

(1) Carrying amounts take into account fair value adjustments and amortized cost.

(2) Financial commitments include accrued expenses and deferred income of which euro 1 million is in non-current financial liabilities maturing after 1 year, euro 1,121 million in non-current liabilities maturing within 1 year and euro 29 million in current financial liabilities.

Maturities of Financial liabilities nominal repayment amount:

	maturing by 12/31/ of the year:						
(millions of euro)	2009	2010	2011	2012	2013	After 2013	TOTAL
Bonds	3,663	2,964	4,187	3,250	2,787	11,969	28,820
Loans and other financial liabilities	409	2,041	379	149	853	4,816	8,647
Finance lease liabilities	256	209	176	134	116	1,078	1,969
Total	**4,328**	**5,214**	**4,742**	**3,533**	**3,756**	**17,863**	**39,436**
Current financial liabilities	782						782
Total	**5,110**	**5,214**	**4,742**	**3,533**	**3,756**	**17,863**	**40,218**

Medium/long-term **amounts due to banks** total euro 5,803 million (euro 5,543 million at December 31, 2007) and increased by euro 260 million mainly as a result of two new loans secured from the European Investment Bank totaling euro 345 million (a nominal amount of euro 342 million). Short-term amounts due to banks of euro 883 million decreased by euro 166 million (euro 1,049 million at December 31, 2007) and include euro 422 million for the current portion of medium/long-term amounts due to banks.

Medium/long-term **other financial payables** amount to euro 453 million (euro 197 million at December 31, 2007). They include euro 187 million for the Telecom Italia Finance S.A. loan of JPY 20,000 million due in 2029 and euro 37 million of payables to the Ministry of Economic Development. Furthermore, on July 31, 2008, with a value date of August 7, 2008, Telecom Italia Finance S.A. placed an issue of

5-year debt certificates regulated by German law denominated Schuldschein for a nominal amount of euro 250 million, at an annual coupon rate of 6.25% with an issue price of 99.23%; the certificates are guaranteed by Telecom Italia S.p.A.

Note 18 - Financial liabilities (current and non-current)

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Short-term other financial payables amount to euro 346 million (euro 373 million at December 31, 2007).

Medium/long-term **finance lease liabilities** total euro 1,713 million (euro 1,809 million at December 31, 2007) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 274 million (euro 262 million at December 31, 2007).

Hedging derivatives relating to hedged items classified as non-current liabilities of a financial nature amount to euro 2,877 million (euro 1,942 million at December 31, 2007) and mainly refer to derivatives on liability positions in which the Group pays flows in USD and GBP.

Hedging derivatives relating to hedged items classified as current liabilities of a financial nature total euro 236 million (euro 363 million at December 31, 2007). Additional details are provided in the Note Derivatives .

Short-term **non-hedging derivatives** total euro 25 million (euro 9 million at December 31, 2007) and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

Revolving Credit Facility

Currently, the Telecom Italia Group has a syndicated Revolving Credit Facility (RCF) expiring August 2014 for euro 8 billion, of which euro 1.5 billion is drawn down.

The following table presents the composition and drawdown of the syndicated committed credit line available at December 31, 2008:

(billions of euro)	**12/31/2008**		**12/31/2007**	
	Secured	**Drawn down**	**Secured**	**Drawn down**
Revolving Credit Facility expiring 2014	8.0	1.5	8.0	1.5

In August 2007, a revision was made to the acquisition of control clause which guarantees that Telecom Italia will retain the credit line even after the change in its shareholders of reference. The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.25%) and made it possible to extend the average term of the euro 8 billion committed bank line while guaranteeing maximum flexibility in terms of the company s access to capital markets.

The change in the acquisition of control clause was also adopted, at the same time, in the documentation of the other syndicated bank line (Term Loan) drawn down in full for euro 1.5 billion with a January 2010 expiration date.

Note 19 Net financial debt

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2008 and December 31, 2007 calculated in accordance with the criteria indicated in the Recommendation of CESR (Committee of European Securities Regulators) dated February 10, 2005 Recommendations for the Uniform Implementation of the European Commission Regulation on Disclosures and also introduced by Consob itself. This table also includes the reconciliation of net financial debt determined according to the criteria indicated by CESR and the net financial debt calculated according to the criteria of the Telecom Italia Group adopted in previous years and presented in the Report on Operations.

Net financial debt determined according to the criteria of Consob amounts to euro 34,135 million at December 31, 2008 (euro 35,831 million at December 31, 2007) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 96 million at December 31, 2008 (higher by euro 130 million at the end of 2007).

Net financial debt determined according to the criteria of the Group amounts to euro 34,039 million at December 31, 2008, with a decrease of euro 1,662 million compared to euro 35,701 million at the end of 2007.

Note 19 - Net financial debt

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Consolidated net financial debt (**)

(millions of euro)		12/31/2008	12/31/2007
Non-current financial liabilities (*):			
Financial payables		31,936	33,299
Finance lease liabilities		1,713	1,809
Non-current liabilities for hedging derivatives		2,877	1,942
Other financial liabilities		1	1
	(1)	**36,527**	**37,051**
Less:			
Non-current financial receivables for lessors net investments		*(257)*	*(279)*
Non-current assets for hedging derivatives		*(2,310)*	*(286)*
		(2,567)	**(565)**
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**33,960**	**36,486**
Current financial liabilities (*):			
Financial payables		5,726	5,943
Finance lease liabilities		274	262
Current liabilities for hedging and non-hedging derivatives		261	372
Other financial liabilities		6	8
	(2)	**6,267**	**6,585**
Less:			
Current financial receivables for lessors net investments		*(143)*	*(149)*
Current assets for hedging derivatives		*(180)*	*(186)*
		(323)	**(335)**
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**5,944**	**6,250**
Financial liabilities relating to Discontinued operations/Non-current assets held for sale	**(C)(3)**		
TOTAL GROSS FINANCIAL DEBT (*)	**(D=A+B+C)**	**39,904**	**42,736**
Current financial assets (*):			
Securities other than investments		(185)	(390)
Financial receivables and other current financial assets		(491)	(377)
Cash and cash equivalents		(5,416)	(6,473)
	(4)	**(6,092)**	**(7,240)**
Less:			
Current financial receivables for lessors net investments		*143*	*149*
Current assets for hedging derivatives		*180*	*186*
		323	**335**
	(E)	**(5,769)**	**(6,905)**
Financial assets relating to Discontinued operations/Non-current assets held for sale	**(F)(5)**		
TOTAL CURRENT FINANCIAL ASSETS (*)	**(G=E+F)**	**(5,769)**	**(6,905)**

NET FINANCIAL DEBT AS PER CONSOB COMMUNICATION N, DEM/6064293/2006	**(H=D+G)**	**34,135**	**35,831**
Non-current financial assets (*)			
Securities other than investments		(15)	(9)
Financial receivables and other non-current financial assets		(2,648)	(686)
	(6)	**(2,663)**	**(695)**
Less:			
Non-current financial receivables for lessors net investments		*257*	*279*
Non-current assets for hedging derivatives		*2,310*	*286*
		2,567	**565**
TOTAL NON-CURRENT FINANCIAL ASSETS (*) (°)	**(I)**	**(96)**	**(130)**
NET FINANCIAL DEBT (**)	**(L=H+I)**	**34,039**	**35,701**
Composition of the financial debt:			
Total gross financial debt:			
Non-current financial liabilities	**(1)**	36,527	37,051
Current financial liabilities	**(2)**	6,267	6,585
Financial liabilities directly associated with Non-current assets held for sale	**(3)**		
		42,794	**43,636**
Total gross financial assets:			
Non-current financial assets	**(6)**	(2,663)	(695)
Current financial assets	**(4)**	(6,092)	(7,240)
Financial assets included in non-current assets held for sale	**(5)**		
		(8,755)	**(7,935)**
NET FINANCIAL DEBT (**)		**34,039**	**35,701**

(*) Net of assets for hedging derivatives and financial receivables for lessors net investments.

(**) As regards the effects of related party transactions on net financial debt, see the specific table included in the Note Related party transactions in the consolidated financial statements.

(°) At December 31, 2008, the item includes: low-rate loans made to employees (59 million of euro) and securities other than investments (15 million of euro).

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Covenants and negative pledges relating to outstanding positions at December 31, 2008

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of euro 555 million (out of a total of euro 2,108 million at December 31, 2008) is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments, it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;

- for the loan with a nominal amount of euro 350 million, if Telecom Italia s rating is lower than BBB+ for S&P s, Baa1 for Moody s and BBB+ for Fitch Ratings and, for the loan with a nominal amount of euro 200 million, if Telecom Italia s rating is lower than BBB for S&P s, Baa2 for Moody s and BBB for Fitch Ratings, the company shall immediately inform EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia fails to provide the guarantees, EIB shall have the right to demand immediate repayment of the amount disbursed;

- the company is obliged to promptly advise the bank about changes in the allocation of share capital among the shareholders which could bring about a change in control. Failure to communicate this information would result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the shareholders meeting or, in any case, a number of shares such that it represents more than 50% of the share capital, whenever, in the bank s reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the Project.

The syndicated bank lines of Telecom Italia do not contain financial covenants (e.g. ratios such as Debt/EBITDA or EBITDA/Interest) which would oblige Telecom Italia to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia s credit rating, with a spread compared to the Euribor of between a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010 and a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014.

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

The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of euro 113 million at December 31, 2008) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders, including the shareholders of Telco, acquires control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties shall negotiate the terms with which to continue the relationship.

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

With the understanding that there are no financial covenants on the loan contracts of the Group, it should be pointed out, that at December 31, 2008, no covenant of any other type, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

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Note 20 Financial risk management

Financial risk management objectives and policies of the Telecom Italia Group

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activities of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results obtained;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management of the above financial risks by the Telecom Italia Group are described below.

Identification of risks and analysis

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum fixed-rate and floating-rate debt composition and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operations in various sectors, in terms of risk, volatility and the amount of expected operating cash flows, 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 adopted a guideline policy for debt management using derivative instruments and mainly uses the following:

Interest Rate Swaps (IRS) are used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or floating;

Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards are used to convert loans and bonds issued in currencies other than euro principally in U.S. dollars and British pounds to the functional currencies of the operating companies.

Derivative financial instruments are used by the Group and are designated as fair value hedges for the management of exchange rate risks on 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 of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high credit rating.

The exposure to the various market risks can be measured by sensitivity analyses, in accordance with IFRS 7. These analyses illustrate the effects produced by a given and assumed movement in the levels of the relevant variables in the various markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below.

The sensitivity analyses were performed by applying reasonably possible movements in the relevant risk variables to the amounts in the financial statements at December 31, 2008 and 2007, assuming that such movements are representative of the entire year.

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The exchange risk of the Group s financial payables denominated in currencies other than euro is fully hedged, therefore, the exchange risk is not considered in the sensitivity analysis under IFRS 7.

The changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in interest rates, generate an impact on profit only when they are accounted for at their fair value, in accordance with IAS 39. All fixed-rate instruments which are accounted for at amortized cost are not subject to interest rate risk as defined by IFRS 7.

In the case of fair value hedge relationships, fair value changes of the underlying hedged item and the derivative instrument, due to changes in interest rates, are almost entirely offset in the income statement for the year. Therefore, these financial instruments are not exposed to interest rate risk.

The changes in value of financial instruments designated in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis.

The changes in value, produced by changes in the interest rates of floating-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

The changes in fair value of the two call options on 50% of the Sofora Telecomunicaciones S.A. share capital (in 2008 for a negative amount of euro 190 million, carrying amount equal to euro 70 million at December 31, 2008) have been determined using an internal valuation model in which the input values, among other things, are the market value of the assets of Sofora Telecomunicaciones S.A., less the share price of its listed investment holdings (Nortel Inversora and, through this company, Telecom Argentina). The market prices of these investments are subject to volatility and consequently influence the fair value of the options held by the Telecom Italia Group; accordingly, they are included in this analysis.

Call options on Sofora Telecomunicaciones S.A. share capital Sensitivity analysis

Assuming an increase (decrease) of 10% in the price of Sofora s listed investment holdings (Nortel Inversora S.A. and, through this company, Telecom Argentina S.A.) and, therefore, the value of Sofora s assets, the change in fair value of the options would have been negative for euro 170 million (euro 210 million) bringing the relative carrying amount to euro 90 million (euro 50 million).

Exchange rate risk Sensitivity analysis

At December 31, 2008 (and at December 31, 2007), the exchange risk of the Group s financial payables denominated in currencies other than euro was completely hedged. For this reason, a sensitivity analysis has not been performed on the exchange risk.

Interest rate risk Sensitivity analysis

If, at December 31, 2008, the interest rates in the different markets in which the Telecom Italia Group operates had been 100 basis points higher (lower) than that actually recorded, the following would have been recognized:

in the income statement, higher (lower) finance expenses, before the relative tax effect, for euro 52 million (euro 95 million in 2007);

in equity, excluding the above effect on profit for the year, higher (lower) equity for euro 140 million (euro 131 million); similarly, at December 31, 2007, the same change in interest rates would have produced higher (lower) Group equity for euro 92 million (euro 105 million).

Note 20 - Financial risk management

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Allocation of the financial structure between fixed rate and floating rate

As for the allocation of the financial structure between the fixed-rate component and the floating-rate component, for both financial assets and liabilities, please refer to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, account was taken of the intrinsic nature of the transactions under consideration (financial characteristics and duration) rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for resetting the interest rate (such as in the case of bank deposits, euro commercial paper and receivables on the sale of securities), was considered in the category of floating rate.

Financial liabilities (at the nominal repayment amount)

	12/31/2008			12/31/2007		
(millions of euro)	**Fixed rate**	**Floating rate**	**Total**	**Fixed rate**	**Floating rate**	**Total**
Bonds	21,289	6,957	28,246	21,452	9,260	30,712
Convertible bonds	574		574	574		574
Loans and other payables [(*)]	7,289	4,109	11,398	3,953	7,313	11,266
TOTAL	**29,152**	**11,066**	**40,218**	**25,979**	**16,573**	**42,552**

(*) At 12/31/2008, current liabilities total euro 782 million, of which euro 700 million is at floating rates (at 12/31/2007, euro 707 million, of which euro 646 million was at floating rates).

Financial assets (at the nominal investment amount)

	12/31/2008			12/31/2007		
(millions of euro)	**Fixed rate**	**Floating rate**	**Total**	**Fixed rate**	**Floating rate**	**Total**
Deposits and cash		4,412	4,412		6,250	6,250
Euro commercial paper		100	100		196	196
Receivables on sale of securities		493	493			
Securities	25	570	595	18	386	404
Other receivables	636	255	891	460	201	661
TOTAL	**661**	**5,830**	**6,491**	**478**	**7,033**	**7,511**

With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The information, since it is provided by class of financial assets and liabilities, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: therefore, this is the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

Note 20 - Financial risk management

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Financial liabilities

	12/31/2008		12/31/2007	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	28,147	5.95	30,612	5.80
Convertible bonds	541	7.42	510	7.42
Loans and other payables	9,416	5.23	9,127	5.96
TOTAL	**38,104**	**5.80**	**40,249**	**5.86**

Financial assets

	12/31/2008		12/31/2007	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Deposits and cash	4,412	2.51	6,249	4.08
Euro commercial paper	100	2.89	196	4.79
Receivables on sale of securities	493	1.60		
Securities	595	10.71	404	5.01
Other receivables	515	6.10	556	6.08
TOTAL	**6,115**	**3.55**	**7,405**	**4.30**

As for financial assets, the weighted average effective interest rate is not essentially affected by the existence of derivatives.

With reference to the concept of market risk, in the broad sense, the Group has interest coupon step-ups and step-downs for certain bonds that change in relation to changes in ratings. Such mechanisms, however, do not affect interest rate exposure, as previously described above, or the determination of the current effective interest rate. Additional information is provided in the Note Financial liabilities (current and non-current) .

As for market risk management using derivatives, reference should be made to the Note Derivatives .

Credit risk

The management of the Group s liquidity is guided by prudent criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period;
- bond portfolio management: the investment of a permanent level of liquidity, the investment of that part of liquidity which is expected to turn around for cash requirement purposes after a 12-month period, as well as an improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with high-credit-quality banking and financial institutions with a minimum of an A rating and generally for periods of less than three months. As for temporary investments of liquidity, there are transactions in euro commercial paper (the issuers all have an A- rating with headquarters in Luxembourg) and repurchase agreements on Italian government securities made by Telecom Italia S.p.A. with Mediobanca as the counterpart. With regard to bond portfolio management, the issuers have a minimum of an A- rating.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and assignment of its credit positions among different banking counterparts. Consequently, there are no significant positions with any one single counterpart.

Note 20 - Financial risk management

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Liquidity risk

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a current treasury margin which makes it possible to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2008, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 12-18 months.

12.7% of gross financial debt at December 31, 2008 (nominal repayment amount) will become due during the following 12 months.

The following table reports the contractual cash flows that are not discounted to present value relative to bonds (which represent 72% of gross financial debt at nominal repayment amounts); the interest flows have been determined using the conditions and interest and exchange rates prevailing at December 31, 2008:

	Maturing by 12/31/ of the year:						
(millions of euro)	**2009**	**2010**	**2011**	**2012**	**2013**	**After 2013**	**TOTAL**
Bonds							
Principal	3,663	2,964	4,187	3,250	2,787	11,969	28,820
Interest	1,513	1,299	1,240	1,042	868	8,415	14,377
Total cash out	**5,176**	**4,263**	**5,427**	**4,292**	**3,655**	**20,384**	**43,197**

Furthermore, at the beginning of 2009, the Group refinanced debt as follows:

on January 22, 2009, Telecom Italia S.p.A. issued bonds for a total of euro 500 million, annual coupon of 7.875%, maturing January 22, 2014;

on February 12, 2009, the European Investment Bank (EIB) and Telecom Italia S.p.A. signed an 8-year loan contract for euro 600 million to fund investments to bridge the broadband digital divide and complete the broadband and internet network infrastructures in insufficiently covered areas of the country.

Fair value of derivatives

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.

The fair value of IRS and CCIRS reflects the difference between the fixed rate which should be paid/received and the market interest rate (having the same maturity as the swap) at the measurement date.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.

The fair value of CCIRS, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRS imply the exchange of the reference principal, in the respective currencies of denomination, in addition to the exchange of flows of interest at the maturity date and eventually at the intermediate payment dates.

Mark-to-market is calculated by discounting interest and notional future contractual flows using market interest rates and exchange rates.

With regard to the fair value measurement of financial liabilities, reference should be made to the Note Supplementary disclosures on financial instruments for assumptions and amounts.

Note 20 - Financial risk management

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Note 21 Derivatives

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to foreign exchange rate risk and the change in commodity prices and interest rate risk and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2008 are principally used to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards and currency options to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group. IRS and IRO transactions, respectively, involve or can involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates, with the counterparts. The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and on demand.

The following tables show the derivative transactions put into place by the Telecom Italia Group at December 31, 2008, divided between fair value hedge derivatives (Table 1 Fair Value Hedge Derivatives), cash flow hedge derivatives (Table 2 Cash Flow Hedge Derivatives) and non-hedge accounting derivatives (Table 3 Non-Hedge Accounting Derivatives) in accordance with IAS 39. On September 17, 2008, after protection under U.S. Chapter 11 bankruptcy was filed by Lehman Brothers Holding Inc., the guarantor of the derivative contracts put into place with Lehman Brothers Special Financing and Lehman Brothers International Europe, the Telecom Italia Group ceased hedge accounting relations affected by the filing and at the same time notified the counterparts of the early resolution of those contracts. On the same date, in order to restore hedge accounting prospectively, the Group signed new derivative contracts with high-credit-quality banking counterparts with terms identical to the contracts that had been early terminated. The financial disbursement was equal to euro 74 million.

Table 1 - Fair Value Hedge Derivatives

Description	Notional amount (millions of euro)	Mark-to-Market (Clean Price) (millions of euro)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on Telecom Italia Finance S.A. bonds of JPY 20 billion (equivalent amount of euro 159 million at 12/31/2008), broken down as follows: by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY; by Telecom Italia S.p.A., a CCIRS contract, on a floating-rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.	172	(21)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds for a total amount of USD 3,500 million (equivalent amount of euro 2,514.5 million at 12/31/2008) issued by Telecom Italia Capital S.A. in October 2004 (5-year tranche of USD 1,250 million, 10-year tranche of USD 1,250 million and 30-year tranche of USD 1,000 million), converting the coupon fixed rate in USD to the 6-month Euribor.	2,831	73
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds for a total amount of USD 2,500 million (equivalent amount of euro 1,796 million at 12/31/2008) issued by Telecom Italia Capital S.A. in September 2005 (5-year tranche of USD 700 million, 5.35-year tranche of USD 400 million and 10-year tranche of USD 1,400 million), converting the coupon fixed rate in USD to the 6-month Euribor.	2,068	(142)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing in July 2011 on the two 5-year tranches for a total of USD 1,600 million (equivalent amount of euro 1,150 million at 12/31/2008) of bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million, converting the coupon rate (respectively, 6.2% in USD and the 3-month Libor USD +0.61%) to the 6-month Euribor.	1,264	(76)
Total Fair Value Hedge Derivatives	**6,335**	**(166)**

Note 21 - Derivatives

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The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

Table 2 - Cash Flows Hedge Derivatives

Description	Notional amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
USD Call / EUR Put options purchased by Telecom Media News S.p.A. maturing December 2009, December 2010 and February 2011 to hedge the exchange rate risk on the commitment to make monthly payments in USD.	3	
USD/EUR collar options purchased by Elettra TLC S.p.A. to hedge the exchange rate risk of its contractual flows equal to USD 43 million expiring by June 2013 (monthly expiration dates); by virtue of these hedging transactions the equivalent amount is set in a range of between euro 28 and 33 million.	33	(1)
Collar options on commodities purchased by Elettra TLC S.p.A. to hedge contractual flows with expiration by December 2010, with the equivalent amount set in a range of between euro 7 and 9 million.	9	(3)
Forward purchases in USD by Elettra TLC S.p.A. to hedge a contractual flow equal to USD 6 million expiring November 2013.	4	
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. (2004-2009), converting the 3-month Euribor to an annual fixed rate of 3.35%.	110	
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2013 on the 10-year tranche of USD 2,000 million (equivalent amount of euro 1,437 million at 12/31/2008) on bonds for a total amount of USD 4,000 million issued by Telecom Italia Capital S.A. in October 2003, converting the coupon rate of 5.25% in USD to a fixed rate of 5.0349% in euro.	1,709	(229)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million at a quarterly floating rate issued Telecom Italia S.p.A. (2004-2015), converting the 3-month Euribor to an annual fixed rate of 4.1605%.	120	
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 525 million at 12/31/2008) issued by Telecom Italia S.p.A. in June 2005, converting a coupon rate of 5.625% in GBP to a fixed rate of 4.34117% in euro.	751	(193)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2019 on bonds of GBP 850 million (equivalent amount of euro 892 million at 12/31/2008) issued by Telecom Italia S.p.A. in June 2004, converting a fixed rate of 6.375% in GBP to a fixed rate of 5.3108% in euro.	1,258	(330)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 420 million at 12/31/2008) issued by Telecom Italia S.p.A. in May 2006, converting a coupon rate of 5.875% in GBP to a fixed rate of 5.5345% in euro.	587	(164)
IRS transactions put into place by Telecom Italia S.p.A. maturing December 2010 on floating-rate bonds of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005 and maturing December 2012, converting a coupon rate of the Euribor +0.53 to a fixed rate of 4.5404% in euro.	1,000	(23)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the private placement of the Dual-Currency loan of JPY 20 billion (equivalent amount of euro 159 million at 12/31/2008) on Telecom Italia Finance S.A.. The following were put into place: by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in USD to the 6-month Libor in JPY; by Telecom Italia S.p.A., a CCIRS contract with which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month	174	(35)

Euribor;

by Telecom Italia S.p.A. an IRS contract converting the 6-month Euribor to a 6.9395% fixed rate in euro.

CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 718.5 million at 12/31/2008) on the bonds issued for a total amount of USD 4,000 million by Telecom Italia Capital S.A. in October 2003, converting the coupon rate of 6.375% in USD to the fixed rate of 5.994% in euro.	849	4
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing July 2036 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 718.5 million at (12/31/2008) on the bonds for a total amount of USD 2,600 million issued by Telecom Italia Capital S.A. in July 2006, converting the coupon rate of 7.20% in USD to the fixed rate of 5.88429% in euro.	791	226
IRS transactions put into place by Telecom Italia S.p.A. maturing July 2013 on bonds of euro 500 million at a quarterly floating rate issued by Telecom Italia S.p.A. (2007-2013), converting the 3-month Euribor rate to an annual fixed rate of 4.334%.	500	(23)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing June 2018 on the 10-year tranche of USD 1,000 million (equivalent amount of euro 718.5 million at 12/31/2008) on the bonds for a total of USD 2,000 million issued by Telecom Italia Capital S.A. in May 2008, converting the coupon rate of 6.999% in USD to a fixed rate of 7.01232% in euro.	642	157
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing June 2038 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 718.5 million at 12/31/2008) on the bonds for a total of USD 2,000 million issued by Telecom Italia Capital S.A. in May 2008, converting the coupon rate of 7.721% in USD to a fixed rate of 7.45122% in euro.	645	309
IRS transactions put into place by Telecom Italia S.p.A. maturing 2016 on bonds of euro 400 million at a quarterly floating rate issued by Telecom Italia S.p.A. (2007-2016), converting the 3-month Euribor to a semiannual fixed rate of 4.9425%.	400	(38)
IRS transactions put into place by Telecom Italia S.p.A. maturing August 2014 on the revolving credit facility of euro 1,500 million at a monthly floating rate, converting the 1-month Euribor rate to a semiannual fixed rate of 4.82583%.	1,500	(118)
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2014 on the EIB loan of euro 350 million at a semiannual floating rate, converting the 6-month Euribor rate to a semiannual fixed rate of 4.93457%.	350	(27)
IRS transactions put into place by Telecom Italia S.p.A. maturing September 2013 on the EIB loan of euro 400 million at a quarterly floating rate, converting the 3-month Euribor rate to a semiannual fixed rate of 5.03388%.	400	(32)
IRS transactions put into place by Telecom Italia S.p.A. maturing December 2013 on the EIB loan of euro 100 million at a semiannual floating rate, converting the 6-month Euribor rate to a semiannual fixed rate of 4.832%.	100	(7)
Total Cash Flow Hedge Derivatives	**11,935**	**(527)**

The hedge of cash flows by derivatives designated as Cash Flow Hedges at December 31, 2008 was considered highly effective and at December 31, 2008 led to:

- recognition of an unrealized gain in equity of euro 333 million;
- transfer from equity to the income statement of net losses from exchange rate adjustments of euro 215 million.

Furthermore, at December 31, 2008, the total gain of the hedging instrument that is still recognized in equity amounts, due to the effect of transactions early terminated over the years, to euro 21 million. The positive impact reversed to the income statement during 2008 is euro 19 million.

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The transactions hedged by Cash Flow Hedges generate cash flows and will produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (million)	Start of period	End of period	Rate applied	Interest period
EURO	110	Jan 09	Mar 09	3-month Euribor + 0.60%	Quarterly
USD	2,000	Jan 09	Nov 13	5.25%	Semiannually
EURO	120	Jan 09	Nov 15	3-month Euribor + 0.66%	Quarterly
GBP	500	Jan 09	Jun 15	5.625%	Annually
GBP	850	Jan 09	Jun 19	6.375%	Annually
GBP	400	Jan 09	May 23	5.875%	Annually
EURO	1,000	Jan 09	Dec 10	3-month Euribor + 0.53%	Quarterly
USD	186	Jan 09	Oct 29	5.45%	Semiannually
USD	1,000	Jan 09	Nov 33	6.375%	Semiannually
USD	1,000	Jan 09	Jul 36	7.20%	Semiannually
EURO	500	Jan 09	Jul 13	3-month Euribor + 0.63%	Quarterly
USD	1,000	Jan 09	Jun 18	6.999%	Semiannually
USD	1,000	Jan 09	Jun 38	7.721%	Semiannually
EURO	400	Jan 09	Jun 16	3-month Euribor + 0.79%	Quarterly
EURO	1,500	Jan 09	Aug 14	1-month Euribor + 0.1575%	Monthly
EURO	350	Jan 09	Mar 14	6-month EIB + 0.29%	Semiannually
EURO	400	Jan 09	Sep 13	3-month EIB + 0.15%	Quarterly
EURO	100	Jan 09	Dec 13	6-month Euribor - 0.023%	Semiannually

The selected method to test the effectiveness, retrospectively and prospectively, of Cash Flow Hedge derivatives, whenever the main terms do not fully coincide, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the income statement from designated Cash Flow Hedges during 2008 is immaterial.

Table 3 Non-Hedge Accounting Derivatives

Description	Notional amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
IRS transactions maturing July 2011 on bonds of USD 850 million issued by Telecom Italia Capital S.A. (2006-2011), put into place by Telecom Italia Finance S.A., in which the latter receives the coupon floating rate if the 10-year USD rate is higher than the 2-year USD rate and pays a semiannual floating rate.	100	(1)
IRS transactions maturing November 2011 put into place by Telecom Italia Finance S.A., in which Telecom Italia Finance S.A. pays the difference between the 2-year USD swap rate and the 2-year American government rate and receives an average fixed rate of 0.8225%. The company is not exposed to any foreign currency exchange risk.	100	
Exchange rate transactions put into place by Telecom Italia S.p.A..	26	(2)
Exchange rate transactions put into place by Telecom Italia Finance S.A..	99	(1)
Exchange rate transactions put into place by Telecom Italia Capital S.A..	5	
Interest and exchange rate put into place by Tim Celular S.A..	382	113
Interest and exchange rate put into place by Tim Nordeste S.A..	27	1
Total Non-Hedge Accounting Derivatives	**739**	**110**

Note 21 - Derivatives

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The following table presents the derivatives of the Telecom Italia Group by type:

Type	Hedged Risk	Notional amount at 12/31/2008 (millions of euro)	Notional amount at 12/31/2007 (millions of euro)	Mark-to-Market Spot (Clean Price) at 12/31/2008 (millions of euro)	Mark-to-Market Spot (Clean Price) at 12/31/2007 (millions of euro)
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	6,335	7,185	(166)	(1,266)
Total Fair Value Hedge Derivatives		**6,335**	**7,185**	**(166)**	**(1,266)**
Interest rate swaps	Interest rate risk	4,480	1,230	(268)	26
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	7,406	6,119	(255)	(686)
Commodity Swaps	Commodity risk (energy)	9		(3)	
Forward and FX Options	Foreign currency exchange rate risk	40	60	(1)	
Total Cash Flow Hedge Derivatives		**11,935**	**7,409**	**(527)**	**(660)**
Total Non-Hedge Accounting Derivatives		**739**	**724**	**110**	**3**
Total Telecom Italia Group Derivatives		**19,009**	**15,318**	**(583)**	**(1,923)**

Note 22 Supplementary disclosures on financial instruments

Valuation at fair value

Majority of the non-current financial liabilities of the Telecom Italia Group is composed of bonds, the fair value of which can be easily determined by reference to financial instruments which, in terms of size and diffusion among investors, are commonly traded in active markets (see the Note Financial liabilities (current and non-current)). However, as concerns other types of financing, the following assumptions were made in order to determine fair value:

- for floating-rate loans, the nominal repayment amount has been used;
- for fixed-rate loans, fair value has been used: the present value of future cash flows using interest rates prevailing at December 31, 2008.

Lastly, for the major part of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The following tables set out, for the assets and liabilities at December 31, 2008 and 2007 and following the categories established by IAS 39, the supplementary disclosures on financial instruments required by IFRS 7; overall gains and losses are also reported.

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Key for IAS 39 categories

Loans and Receivables	**LaR**
Financial assets Held-to-Maturity	**HtM**
Financial assets Available-for-Sale	**AfS**
Financial Assets/Liabilities Held for Trading	**FAHfT and FLHfT**
Financial Liabilities at Amortized Cost	**FLAC**

Fair value by IAS 39 category at December 31, 2008

(millions of euro)	IAS 39 Category	Carrying amounts in financial statements at 12/31/2008	Amounts recognized in financial statements according to IAS 39 Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2008
ASSETS								
Loans and receivables	LaR	12,555	12,540			15		12,555
Financial assets available-for-sale	AFS	185		78	107			185
Financial assets held for trading	FAHfT	233				233		233
Hedging derivatives	n.a.	2,490			1,706	784		2,490
Other financial assets at fair value	n.a.	70				70		70
Assets measured according to IAS 17	n.a.	400					400	400
		15,933						**15,933**
LIABILITIES								
Financial liabilities at amortized cost	FLAC	45,209	45,209					41,735
Financial liabilities held for trading	FLHfT	25				25		25
Hedging derivatives	n.a.	3,113			2,184	929		3,113
Liabilities measured according to IAS 17	n.a.	1,987					1,987	2,427
		50,334						**47,300**

Carrying amounts and amounts recognized in the financial statements by IAS 39 category

(millions of euro)	IAS 39 Category	note	Carrying amounts in financial statements at 12/31/2008	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
				Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	
ASSETS								
Other Investments	AfS	7)	57		39	18		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	7)	81	81				
of which securities	AFS	7)	15			15		
of which hedging derivatives	n.a.	7)	2,310			1,609	701	
of which receivables for lessors net investments	n.a.	7)	257					257
Miscellaneous receivables and other non-current assets (*)								
of which loans and receivables	LaR	7)	29	14			15	
of which other financial assets at fair value	n.a.	7)	70				70	
Trade and miscellaneous receivables and other current assets (*)								
of which loans and receivables	LaR	10)	6,983	6,983				
Investments (Current assets)	AFS	12)	39		39			
Securities								
of which available-for-sale	AFS	13)	74			74		
of which held for trading	FAHfT	13)	111				111	
Financial receivables and other current financial assets								
of which loans and receivables	LaR	14)	46	46				
of which non-hedging derivatives	FAHfT	14)	122				122	
of which hedging derivatives	n.a.	14)	180			97	83	
of which receivables for lessors net investments	n.a.	14)	143					143
Cash and cash equivalents	LaR	15)	5,416	5,416				
			15,933					
LIABILITIES								