UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

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

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from N/A to N/A

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Andrea MANGONI

Head of Administration, Finance and Control & International Development

Telecom Italia S.p.A.

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 10 Ordinary Shares of 0.55 euros par value each (the **Ordinary Share ADSs**)	The New York Stock Exchange
Ordinary Shares of 0.55 euros par value each (the **Ordinary Shares**)	The New York Stock Exchange*
American Depositary Shares, each representing 10 Savings Shares of 0.55 euros par value each (the **Savings Share ADSs**)	The New York Stock Exchange
Savings Shares of 0.55 euros par value each (the **Savings Shares**)	The New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock

as of the close of the period covered by the annual report.

Ordinary Shares 13,254,622,987

Savings Shares 6,026,120,661

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

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INTRODUCTION

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term Company means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we , us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**).

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2011 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

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

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

Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, should, seeks or anticipates or similar expressions or the negative thereof or othe terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified in our core markets, including regulatory developments.

Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11 Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside our control, that could significantly affect expected results.

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

· our ability to successfully implement our strategy over the 2012-2014 period;

· our ability to successfully achieve our debt reduction targets;

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

- the increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning a proprietary TLC network infrastructure);
- the continuing effects of the global economic crisis in the principal markets in which we operate, including recent changes to allowable charges for data and voice roaming;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as procurement, IT, technology, research and development;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate, including recent changes to allowable charges for data and voice roaming;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- our services are technology-intensive and the development of new technologies could render such services non-competitive;
- the impact of political developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil and Argentina), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil and Argentina);
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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

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KEY DEFINITIONS

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

EU

means the European Union.

IASB

means the International Accounting Standards Board.

IFRS

means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards (**IAS**) and all Interpretations issued by the IFRS Interpretations committee (formerly called International Financial Reporting Interpretations Committee IFRIC), comprising those previously issued by the Standing Interpretations Committee (**SIC**).

Ordinary Shares

means the Ordinary Shares, 0.55 euros par value each, of Telecom Italia.

Parent, Telecom Italia and Company

means Telecom Italia S.p.A..

Savings Shares

means the Savings Shares, 0.55 euros par value each, of Telecom Italia.

Telecom Italia Group and Group

means the Company and its consolidated subsidiaries.

Telecom Italia Media

Telecom Italia Media is the Telecom Italia Group s subsidiary operating in the Media business.

In addition to the foregoing terms, certain technical telecommunication terms relating to our businesses are defined in the glossary of this Annual Report (see Item 4. Information on the Telecom Italia Group 4.4 Glossary of Selected Telecommunications Terms).

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

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (×1); basic ISDN (×2); primary ISDN (× between 20 and 30 as an average);

- Internet and data accesses: includes broadband accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);

- IP TV (Internet Protocol TV);

- Mobile accesses: number of lines;

- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, shared UL);

- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and

- Other: includes other circuits for other operators.

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PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

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

RISKS RELATED TO THE TELECOM ITALIA GROUP

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

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

· reinforcement of cash flow generation via: repositioning in markets with the best growth prospects, setting the company back on a path to growth; continued improvement in operational efficiency, especially in our Italian domestic market; and a demand-driven approach to investments;

· steady and persistent deleveraging to reduce the Group s net financial debt, coupled with sustainable shareholder remuneration.

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

· regulatory decisions and change in the regulatory environment in Italy or in the other countries in which we operate;

· increasing number of competitors in our principal markets which could cause us to lose further market share;

· increasing and stronger market competition in our principal markets with a consequent decline in the prices of services;

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

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

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

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

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

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

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

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

The continuing weakness in the global economy, in particular in our domestic market, creates significant uncertainty and may adversely impact consumer spending, including on telecommunications services. If we fail to successfully implement our plans to improve efficiency and optimize expenditures, our results of operations and financial condition could be adversely affected.

Our leverage is such that deterioration in cash flow can change the expectations of the Group s ability to repay its debt and the inability to reduce our debt could have a material adverse effect on our business. Continuing volatility in the international credit markets may limit our ability to refinance our financial debt.

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

Due to the competitive environment and current economic conditions, there could be deterioration in our income statement and statement of financial position measures used by investors and rating agencies in determining our credit quality. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody s and Standard & Poor s, which base their ratings on our ability to repay our debt.

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

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

The management and further development of our business will require us to make further capital and other investments. We may therefore incur additional debt in order to finance such investment. Our future results of operations may be influenced by our ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside our control. In addition, if such transactions increase our leverage it could adversely affect our credit ratings.

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

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

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

Operational risks could adversely affect our reputation and our profitability.

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

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

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

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Risks associated with Telecom Italia s ownership chain.

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

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

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

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

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

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

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

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

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

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

On March 26, 2009, the European Court of Justice declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the Court s ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury s special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on May 20, 2010, the Italian Government amended the criteria under which it may exercise such special powers. In any event, the ruling by the European Court of Justice does not have any immediate or direct impact on Telecom Italia s bylaws.

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

- a power granted to the Italian Government to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified as above in the Prime Ministerial decree referred to above. The right to purchase will in any case be permitted solely on condition of reciprocity in the purchaser s home jurisdiction;

- a power of veto granted to the Italian Government (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of said strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee.

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

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

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

Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunications services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our reputation.

Our business depends on the upgrading of our existing networks.

We must continue to upgrade our existing networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to:

- upgrade the functionality of our networks to permit increased customization of services;
- increase coverage in some of our markets;
- expand and maintain customer service, network management and administrative systems; and
- upgrade older systems and networks to adapt them to new technologies.

Many of these tasks are not entirely under our control and may be affected by applicable regulation. If we fail to execute them successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Telecommunications Industry and Financial Markets

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

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

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

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

Because we operate in a heavily regulated industry, regulatory decisions and changes in the regulatory environment could materially adversely affect our business.

Telecom Italia s fixed and mobile telecommunications operations, as well as its broadband services and television broadcasting businesses, are subject to regulatory requirements in Italy and its international operations are subject to regulation in their host countries.

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

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

Included within the regulatory framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (**AGCom**) to identify operators with significant market power (**SMP**) based on market analyses in relevant separate retail and wholesale markets, identified in an EC Recommendation, in which it is considered necessary to intervene to protect free competition. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power in various markets.

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

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

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

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

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

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

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

We operate under authorizations granted by government authorities.

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

Many of these authorizations are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing authorizations typically require us to satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the authorization for the relevant area. In addition, the need to meet scheduled deadlines may require us to expend more resources than otherwise budgeted for a particular network build-out.

Strong competition in Italy may reduce our core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on our results of operations and financial condition.

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. The use of the single European currency and the liberalization of the Italian telecommunications market (since January 1998) have intensified competition by facilitating international operators entry into the Italian market and direct competition with Telecom Italia s fixed-line and mobile telephony businesses and for broadband services.

Competition has continued to intensify. As of the date of this Annual Report, there are a number of significant competitors offering fixed-line and broadband services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. In addition, some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which originated from fixed line operators.

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

Competition in our principal lines of business could lead to:

- price and margin erosion for our products and services;

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

Although we have taken a number of steps to realize additional efficiencies and to rebalance revenue mix through the continuing introduction of innovative and value added services, and although our plans take into account that we face significant competition from a number of operators in all the markets in which we operate, if any or all of the events described above should occur, the impact of such factors could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

Continuing rapid changes in technologies could increase competition, reduce usage of traditional services or require us to make substantial additional investments.

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as the convergence of services accelerates, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may prove to be commercially unsuccessful. Moreover, Telecom Italia may not receive the necessary authorizations to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavorable regulation regarding the usage of these technologies. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fluctuations in currency exchange and interest rates may adversely affect Telecom Italia s results.

In the past, we have made substantial international investments, primarily in U.S. dollars, and have significantly expanded our operations outside of the Euro zone, particularly in Latin America.

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

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

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

3.2 EXCHANGE RATES

We publish our consolidated financial statements in euros. References to , euro and Euro are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to U.S. dollars , dollars , U.S.$ or $ are to U.S. dollar the currency of the United States of America.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00= U.S.$ 1,2973, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the **Noon Buying Rate**) on December 31, 2011.

These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

For the purpose of this Annual Report, billion means a thousand million.

The following table sets forth for the years 2007 to 2011 and for the beginning of 2012 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per 1.00.

Calendar Period	High	Low	Average(1)	At Period end
2007	1.4862	1.2904	1.3705	1.4603

2008	1.6010	1.2446	1.4725	1.3919
2009	1.5100	1.2547	1.3936	1.4332
2010	1.4536	1.1959	1.3262	1.3269
2011	1.4875	1.2926	1.3931	1.2973
2012 (through May 4, 2012)	1.3463	1.2682	1.3132	1.3091

Monthly Rates	**High**	**Low**	**Average(1)**	**At Period end**
November 2011	1.3803	1.3244	1.3558	1.3453
December 2011	1.3487	1.2926	1.3155	1.2973
January 2012	1.3192	1.2682	1.2910	1.3053
February 2012	1.3463	1.3087	1.3238	1.3359
March 2012	1.3336	1.3025	1.3208	1.3334
April 2012	1.3337	1.3064	1.3160	1.3229
May 2012 (through May 4, 2012)	1.3226	1.3091	1.3155	1.3091

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

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

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

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

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

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

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

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Item 3. Key Information **Selected Financial And Statistical Information**

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

· per Ordinary Share	0.056	0.043(5)	0.058	0.0500	0.0500	0.0800
· per Savings Share	0.070	0.054(5)	0.069	0.0610	0.0610	0.0910

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

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

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

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

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

· Earnings is calculated by adding:

profit (loss) before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and debt issue discounts or premiums;

dividends from associates and joint ventures accounted for using the equity method; and

share of losses of associates and joint ventures accounted for using the equity method and then subtracting:

capitalized interest for the applicable period; and

share of earnings of associates and joint ventures accounted for using the equity method.

· Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

issue costs and any original debt issue discounts or premiums; and

an estimate of the interest within rental expense for operating leases.

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

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

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

Savings Shares was 6,026,120,661 for the years ended December 31, 2011, 2010, 2009, 2008 and 2007.

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

(5) Telecom Italia s dividend coupons for the year ended December 31, 2011, will be clipped on May 21, 2012, and will be payable from May 24, 2012.

(6) Share capital represents share capital issued net of the par value of treasury shares.

(7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2011 5.2.3 Non-GAAP Financial Measures .

(8) Please see Item 4. Information on the Telecom Italia Group 4.1. Business 4.1.5. Recent Developments During 2012 .

3.4 DIVIDENDS

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

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

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

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. As far as year ended December 31, 2011 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on May 4, 2012.

(2) Subject to approval at the Annual Shareholders Meeting to be held on May 15, 2012. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders Annual Meeting approving the dividends. Telecom Italia s dividend coupons for the year ended December 31, 2011 will be clipped on May 21, 2012, and will be payable from May 24, 2012.

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

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

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

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

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

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

The Depositary, in accordance with Telecom Italia, will provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law. To the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax convention, claims for such benefits must be accompanied by the required information. See Item 10. Additional Information 10.6 Taxation .

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

4.1 BUSINESS

4.1.1 BACKGROUND

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

Our Depositary in New York (JP Morgan Chase) is presently located at 4 New York Plaza, New York, New York 10004.

The duration of the company, as stated in the company s Bylaws, extends until December 31, 2100.

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

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

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

On March 20, 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia s ordinary share capital to 24.5%.

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

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

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

4.1.2 DEVELOPMENT

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

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

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

For more details, please see 4.1.7 Updated Strategy .

4.1.3 BUSINESS

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

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Item 4. Information On The Telecom Italia Group **Business**

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

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

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

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

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

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

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

Domestic Business Area

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

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

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

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

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

Brazil Business Area

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

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

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

Argentina Business Area

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

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

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2011

For a description of disposals and acquisitions of significant equity investments in 2011 please see Note Form, Content and Other General Information , Note Business Combinations , Note Other Non-Current Assets and Note Discontinued operations/Non-current assets held for sal the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.5 Recent Developments During 2012

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

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

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

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4.1.6 Overview of the Telecom Italia Group s Major Business Areas

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

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

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

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

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

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

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

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

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4.1.7 UPDATED STRATEGY

Strategic Priorities and Objectives for the 2012-2014 Three-year Period (the Plan)

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

· reinforcement of cash flow generation via: repositioning on markets with the best growth prospects, setting the company back on a path to growth; continued improvement in operational efficiency, especially in our Italian domestic market; and a demand-driven approach to investments;

· steady and persistent deleveraging to reduce the Group s net financial debt, coupled with sustainable shareholder remuneration.

Domestic market

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

· Defense of its revenues:

 protect the value of traditional services;

 improve performance of fixed broadband portfolio;

 profitable mobile data growth.

· Operating costs efficiency:

 continuous focus on efficiency improvements.

· Selective network deployment:

 primarily to exploit UBB (Ultra broadband) demand as well as continuing investment in its network, in each case using a market-driven approach.

Brazil

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

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

Argentina

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

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

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

4.1.8 THE ORGANIZATIONAL STRUCTURE

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

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

4.2 BUSINESS UNITS

4.2.1 Domestic

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

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

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

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

- **Core Domestic**: Core Domestic includes all telecommunications activities within the Italian market. Revenues indicated in the tables that follow are divided according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:
  - **Consumer**: Consumer comprises the aggregate of voice and internet services and products managed and developed for individuals and families in the fixed and mobile telecommunications markets, public telephony and web portal/services;
  - **Business**: Business comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHOs (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top**: Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;
  - **National Wholesale**: National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile telecommunications operators in the domestic market;
  - **Other** (support structures):

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

- Staff & Other: services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.

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

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v **MARKETING CHANNELS AND DISTRIBUTION**

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

Distribution

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

· ***Consumer***

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

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

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

· ***Business***

The business distribution channels are made up of:

- *SA Senior Account* channel: a network organized geographically based on about 146 partners focused on the top level of high value customers;
- *BP Business Partner* channel: a network focused on standard offers with about 1,600 agents;

- *VAR Value Added Reseller* channel: a network organized geographically focused on VAS, customized solutions and complex networks (200 agents) and on ICT (another 200 agents);
- *IM Innovation Manager*; channel focused on innovative products and services (40 agents);
- *Outbound Call Center*: 7 partners focused on specific canvass and loyalty activities;
- *Community Account*: 4 agents focused on vertical segmentation (i.e. agreements with professional associations); and
- *Shops*: some specific shops (1,000 among *Pull Channel shop*) offering business products and assistance (16 Key Account).

- ***TOP***

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

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

- ***National Wholesale Services***

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

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

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

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

v CUSTOMER AND LINES

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

	As of and for the years ended December 31,		
	2011	**2010**	**2009**
DOMESTIC FIXED			
Fixed-line network connections in Italy at year-end (thousand)	16,745	17,609	18,525
Physical accesses (Consumer + Business) at year-end (thousand)	14,652	15,351	16,097
Broadband accesses in Italy at year-end (thousand)	9,089	9,058	8,741
Of which retail broadband accesses (thousand)	*7,125*	*7,175*	*7,000*
Network infrastructure in Italy:			
· access network in copper (millions of km pair, distribution and connection)	112.2	111.7	110.5
· access and carrier network in optical fiber (millions of km fiber)	4.6	4.3	4.1
Network infrastructure abroad:			
· European backbone (km of fiber)	55,000	55,000	55,000
· Mediterranean (km of submarine cable)	7,500	7,000	7,000
· South America (km of fiber)	30,000	30,000	30,000

Total traffic:			
Minutes of traffic on fixed-line network (billions):	108.9	121.5	134.4
· *Domestic traffic*	*93.3*	*104.1*	*115.6*
· *International traffic*	*15.6*	*17.4*	*18.8*
Domestic Mobile			
Number of lines at year-end (thousand)	32,227	31,018	30,856
Change in lines (%)	3.9	0.5	(11.3)
Churn rate (%)(1)	21.9	22.0	29.4
Total outgoing traffic per month (millions of minutes)	3,633	3,305	2,982
Total average outgoing and incoming traffic per month (millions of minutes)	4,843	4,597	4,260
Average monthly revenues per line(2) (euro)	17.4	19.7	20.0

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

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

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

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

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

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

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

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

v COMPETITION

The market

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

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

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

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

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

- in Media, the broadcasters, vertically integrated players, continue to dominate the scenario but, with the Web having a growing importance as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies and the OTTs;

- in Information Technology (where Italy continues to have a level of investment relative to its GDP which is significantly lower than that of the United States and of other European countries), the decline in revenues is driving the various players towards the cloud computing growth oasis as a way of protecting market shares in their respective core businesses. A strengthening of the telecommunications operators is expected in this sector, although often through partnerships;

- in the Consumer Electronics market, the producers can develop services that can be used over the internet, appealing to handset owners and user experience, attenuating the relationship between the customer and the telecommunications operator and competing with the media and OTTs, through the games console and the set-top box, for the role of net enabler of the living room screen;

- the OTT operators lead, for some time now, the transformation of the ways TLC (also over voice) services are used and are increasingly integrating them with Media and IT.

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

- initiatives to enter the IT market of innovative services by expanding Cloud services from the business to the consumer world;

- new wireless applications such as Machine-to-Machine and mobile payment; and

- significant presence as facilitators of online digital content use on the living room screen using OTT TV multidevice solutions.

Competition in Fixed-Line Telecommunications

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

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

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

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

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

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

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

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

Competition in Mobile Telecommunications

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

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

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

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

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

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

4.2.2 BRAZIL

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

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

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

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

Since the Tim Brasil group began operating in the Brazilian market, its intention has been to provide its customers with state-of-the-art technology and services. This goal has been achieved through the offer of edge technology, that has allowed convergence between voice services either mobile or fixed , internet access and data transfer. Management believes this convergence has been made feasible with developments under 3G.

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

	As of and for the years ended December 31,		
	2011	**2010**	**2009**

Number of lines at year-end (thousands)	64,070	51,015	41,102

v **Marketing**

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

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

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

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

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

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

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

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

v **DISTRIBUTION**

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

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

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

v **COMPETITION**

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

4.2.3 Argentina

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

(*) Non-operating companies.

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

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

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

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

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

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

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

v **MARKETING**

Fixed Services

In the residential fixed business, Telecom Argentina has concentrated its efforts in satisfying its customers access demand, trying to contain the drop of minutes of use related to the effect of substitution of mobile traffic and increasing the ARBU (Average Revenue Billed per User). Revenues from local traffic continue to increase leveraged by the growth of lines with minutes included in the plan and subscription plans, despite the slight drop in traffic volume. Also, and to adjust the portfolio to customer s needs, new local calling plans were launched to lower consumption customers. Regarding national and international long distance services, the focus has remained on encouraging the purchase of subscription plans and upselling campaigns, resulting in an improved ARBU.

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

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

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

Mobile Services

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

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

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

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

v **DISTRIBUTION**

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

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

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

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

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

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

v COMPETITION

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

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

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

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

4.2.4 MEDIA

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

TI Media La7 includes the Telecom Italia Media s operations relating to the television broadcasters La7 and La7d and the Multimedia/Web area (La7.it and La7.tv). Until September 30, 2011, it also included the Telecom Italia Group s Digital Content operations, which were discontinued effective October 1, 2011, following the early termination of the contract with Telecom Italia;

MTV group: includes the operations of MTV Italia and its subsidiary MTV Pubblicità relating to the television broadcasters MTV and MTV Music, the 360° Playmaker production unit, the production of multimedia musical platforms and satellite channels, in addition to MTV Mobile and Digital (Web);

Network Operator (TIMB): includes the operations of Telecom Italia Media Broadcasting relating to managing the analog and digital broadcasting networks of La7 and MTV and the Digital Multiplex channels operated by the Group, in addition to accessory services and radio and television broadcasting platforms offered to Group companies and third parties.

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

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

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

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

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

4.2.5 OLIVETTI

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

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

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

4.2.6 COMPETITION

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

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

4.3 REGULATION

The EU regulatory framework

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

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

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

A recommendation adopted in February 2003, on relevant product and service markets susceptible of ex ante regulation, completed this set of legal instruments. In December 2007, the European Commission (**EC**) amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible to ex-ante regulation to 7: retail access at a fixed location (market 1) and, at wholesale level, call origination at a fixed location (market 2); call termination at a fixed location (market 3): wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale broadband access (market 5); wholesale terminating segments of leased lines (market 6) and voice call termination on mobile networks (market 7).

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

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

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

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

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

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

Telecommunication Regulatory Framework in Italy

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

(i) Law 26 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ;

(ii) the Electronic Communications Code (**ECC**), Legislative Decree August 1, 2003, n. 259, which transposed into national law the EU Access, Authorisation, Framework and Universal Service directives;

(iii) Data Protection Code (Legislative Decree June 30, 2003, n. 196), last amended by Law November 20, 2009, n. 166;

(iv) the Consolidated Law on Radio-Television (Legislative Decree July 31, 2005, n. 177) containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;

(v) the Consumer Code adopted with Legislative Decree September 6, 2005, n. 206;

(vi) Legislative Decree October 3, 2006, n. 262 which contained Urgent measures regarding tax and financial issues and, partially amended the sanctions regime set by the ECC by introducing further examples of administrative offences, a generalised increase in the fines for each sanction and the elimination of the partial cash settlements of fines;

(vii) Decree Law January 31, 2007, n. 7 (enacted by Law April 2, 2007, n. 40) containing urgent measures for the protection of consumers, for the promotion of competition, for the development of economic activities. The above mentioned law impacts the electronic communications sector by prohibiting top-up charges and the expiration of phone traffic for prepaid phone cards;

(viii) Legislative Decree May 30, 2008, n. 109 amending Directive 2002/58/EC and transposing into national law the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks;

(ix) Law June 18, 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fibre networks (Article 1 Broadband);

(x) Law Decree July 6, 2011, n. 98, enacted by Law July 15, 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt); and,

(xi) the 2011 Budget Law (Law December 13, 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies rights of use.

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

(i) the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;

(ii) AGCom is an independent regulatory authority granting fair competition among operators and protecting consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

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4.3.1 Telecommunication Regulation In Italy

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

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

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

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

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

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

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

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

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

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

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

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

Market analyses

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

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

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

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

- **Retail-fixed markets**

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

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

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

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

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

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

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

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

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

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

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

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· **Wholesale fixed markets**

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

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

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

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

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

In November 2010, within the analysis of the wholesale access market, AGCom introduced obligations related to the access to NGAN infrastructures and, in particular, introduced the access obligation to ducts and dark fibre at fair and reasonable prices under AGCom supervision and the bitstream access on Fibre To The x (**FTTx**). AGCom further announced the launch of a dedicated proceeding on NGAN regulation. On September 20, 2010, the EC adopted a Recommendation on NGAN regulation. A new regulatory model was proposed where NRAs were asked to take into proper consideration the differences in competitive conditions within different geographical areas in order to assess whether the definition of sub-national geographical markets or the imposition of differentiated remedies were warranted. On September 23, 2010, with Decision 498/10/CONS, AGCom started the process leading to the regulation of the next generation network access services. Subsequently, in January and May 2011, the Authority launched two public consultations on the new regulatory regime for the access to new generation networks. With Decision 1/12/CONS dated January 18, 2012, the Authority published its final decision, which does not provide for an explicit fibre unbundling obligation at the exchange level on Telecom Italia. Furthermore, the obligation to provide an end to end dark fibre service between Telecom Italia s exchanges and the final customer s premises has been confirmed, even though its scope has been reduced by conditioning requests for service by alternative operators related to Telecom Italia s NGAN investment plan to the reasonable and proportionality principle. As to the pricing of the bitstream service over fibre, AGCom confirmed the geographic scope of the cost orientation obligation only for the NGAN non-competitive areas. Furthermore, AGCom cut down to only 60 days the period between the publication of the Reference Offer for bitstream services over fibre and the subsequent launch of Telecom Italia s retail offers. In February 2012, AGCom opened three proceedings for the completion of the NGAN rules aimed at introducing: 1) cost model for the pricing of passive and active wholesale services and the definition of the competitive areas for the geographic price differentiation of bitstream services; 2) the prospective enforcement of symmetric obligations on all operators, for the access to fibre vertical wiring and to building connection segments; and 3) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fiber To The Cabinet Very High-speed Digital Subscriber Line (**FTTCab-VDSL**) accesses.

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

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

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

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

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

· **Mobile markets**

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

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

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

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

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

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

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

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

Mobile Number Portability (MNP)

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

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

International roaming

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

(i) an average wholesale price cap for outgoing calls; and,

(ii) a price cap for maximum retail prices for outgoing and incoming calls (**Euro-tariff**).

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

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

(a) the extension of retail (up to the year 2017) and wholesale caps (up to the year 2022) on voice roaming services, SMS and intra-EU data;

(b) the decoupling of roaming offers from national offers (from 2014), allowing customers to buy roaming offers from a different provider than the one providing national services; and

(c) the obligation for mobile operators to provide wholesale roaming access at regulated prices.

Long Term Evolution (LTE) Frequencies

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

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

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

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

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

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

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

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

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

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

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

Numbering plan

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

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

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

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

Quality of services of broadband internet access at fixed location

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

- operators shall state their minimum standards of service quality (including the minimum connection speed) and other information about the characteristics of the access. Subscribers can terminate their contract if the quality of their connection is below the claimed minimum standards; and,

- operators shall undertake statistical measurements at regional level (for example speed data transmission; rate of failure in data transmission; rate of packet loss). At present, this activity has been taken in ten regions and will be gradually extended to all 20 Italian regions.

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

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

Quality of services of broadband internet access at mobile location

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

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

Universal Service

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

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

The net cost of providing the Universal Service is calculated as the difference between the company s net cost when it is subject to the obligation of providing the Universal Service and the net cost of the same operation should the obligation not exist. It is AGCom s responsibility to verify the net cost of the Universal Service.

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

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

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

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

Public Telephony

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

Accounting separation and fixed network cost accounting

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

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

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

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

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

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

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

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

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

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

Accounting separation and mobile network cost accounting

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

During the year 2011:

· auditing activities regarding accounts at historical costs for the year 2009 ended in April 2011;

· regulatory accounting report for the year 2010 was delivered to AGCom in 2011 in compliance with the law and with AGCom s Decisions;

- with Decision n. 254/11/CONS, AGCom started a new round of market analyses and stated a new glide path for MTRs for the 2012-2015 period;

- with Decision n. 621/11/CONS, AGCom:

  (A) Updated the glide path in three steps: 07/01/2012, 01/01/2013 and 07/01/2013 in order to speed up the process towards symmetric rates.

  (B) Pointed out (clarified) that rules to be applied for regulatory accounting are those stated by Decisions n. 667/08/CONS and n. 60/11/CONS.

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

AGCom fee 2011-2012

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

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

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

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

Broadband and digital divide

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

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

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

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

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

4.3.2 PRIVACY AND DATA PROTECTION

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

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

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

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

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

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

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

When data retention is concerned, communications service providers (**CSPs**) are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. In 2008, data retention terms were significantly reduced. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

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

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

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

4.3.3 ANTITRUST IN ITALY

Legislation on competition

Telecom Italia is subject to Italian competition law.

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

The Antitrust Authority is responsible for:

(i) applying Law 287/1990 and supervising: (a) restrictive agreements; (b) abuses of a dominant position; and (c) concentrations of enterprises;

(ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e., Articles 101 and 102 of the Treaty on the Functioning of the European Union);

(iii) applying Legislative Decree September 6, 2005 n. 206 concerning unfair commercial practices; and,

(iv) monitoring conflicts of interest in the case of individuals holding government positions.

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

Antitrust Proceedings A426 and A428

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

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4.3.4 Telecommunication Regulatory Framework in Brazil

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

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

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

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

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

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

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

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

Authorizations

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

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

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

According to Brazilian law, Internet access is considered a value-added service, and providers of Internet services are not considered to be telecommunications operators. The rules require that all telecommunications services operators allow network access to any interested party to provide value-added services, without discrimination, unless technically impossible. The voice service providers can also provide value-added service through their own networks.

Interconnection rules

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

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

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

Interconnection agreements are subject to prior approval by ANATEL.

Main regulatory developments

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

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

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

- withdraw asymmetry of FTRs currently enjoyed by non SMP operators (these operators are allowed a 20% mark up over SMP operators´ FTRs); and

- apply local interconnection rates in case of a traffic unbalance of at least 75% of traffic exchanged amongst public switched telecommunications service operators (the current threshold is 50%). Below that threshold a system of bill and keep applies.

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

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

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

- improved enforcement mechanisms.

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

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

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

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

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

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

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

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

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

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

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

4.3.5 TELECOMMUNICATION REGULATORY FRAMEWORK IN ARGENTINA

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

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

The Argentinean regulatory framework is mainly featured by:

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

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Regulatory Authorities abroad

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

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

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

Authorizations

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

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

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

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

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

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

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

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

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

The freezing of rates for fixed telephony

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

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

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

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

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

Any revisions of rates should be promoted by the Government.

Main regulatory developments

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

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

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

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

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

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

Argentina Conectada Plan

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

The initial objectives of the plan are:

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

Spectrum

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

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

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

Mobile Number Portability Implementation

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

4.3.6 Broadcasting Regulatory Framework in Italy

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

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

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

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

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

Logical Channel Numbering Plan

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

Switch off timetable

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

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

Digitalization of broadcasting networks and frequencies

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

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

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

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

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

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

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

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

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

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

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

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

PNAF and digital dividend for mobile services

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

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

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

4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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BSC (Base Station Controller). Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.

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

BTS (Base Transceiver Station). Radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX).

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

Carrier. Company that makes available the physical telecommunication network.

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

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

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

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

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

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

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

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

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

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

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

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

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Digital divide. The gap between people with effective access to digital and information technology and those with very limited or no access at all. The term encompasses among others: gaps in ownership of or regular access to a computer, internet access today primarily broadband, and related skills.

Digital Home. Fruition of a fully/partially automated house. Generally the term refers to the presence of a home network of Consumer Electronics equipment, personal computer and mobile devices that cooperate transparently, delivering simple, seamless interoperability that enhances and enriches user experiences in Internet access, multimedia**,** home tasks automation.

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

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

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

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

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

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

Exchange. See Switch.

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

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

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

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

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

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

GRX (**GPRS Roaming eXchange for Mobile Operators**). The GRX service allows Mobile Operators to interconnect GPRS networks around the world and offer global GPRS roaming coverage.

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GSM (Global System for Mobile Communication). A standard for digital cellular telephony used in the world and working on 900MHz and 1800MHz band.

GSM TIM Card. A prepaid, rechargeable card which permits the TIM mobile customer to make outgoing calls up to the limit of the card and receive an unlimited number of calls.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MGCP (Media Gateway Control Protocol). An Internet Engineering Task Force (IETF) signaling protocol proposal allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

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

MGW (Media GateWay). Junction for the connections which carry user traffic.

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

MMS (Mobile Multimedia Services). Represent an evolution of the SMS and the EMS service using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

Modem. Modulator/Demodulator. A device that modulates digital data to allow their transmission on analog channels, generally consisting of telephone lines.

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

MS SPRING. A form of traffic protection mechanism for the equipment.

MSC (Mobile Switching Center). Executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

MSP. The name of a general purpose programmable switch made by Redcom Laboratories.

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

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

NGAN (New Generation Access Network). New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

NGNs (Non-Geographic Numbers). The non-geographic numbers are unique as they are by definition not associated with any particular geographic location (*e.g.* premium rate services, toll free, directory assistance services).

NGN2 (Next Generation Network). New generation network created by Telecom Italia to meet the demands of corporates, public administrations and citizens. The new network architecture guarantees an infrastructure designed to face multiple offers by increasing customisation levels and bandwidth availability, removing bandwidth limits and providing an impressive capacity along with a wide selection of access systems.

NNI Agreements (Network Node Interface Agreements). Contractual agreements for the interface between two public network pieces of equipment (NNI).

Node. Topological network junction, commonly a switching center or station.

Node B (counterpart of BTS in GSM). This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

Online advertising. Form of promotion that uses the Internet and World Wide Web for the purpose of delivering marketing messages to customers. Examples of online advertising include contextual ads on search engine results pages, banner ads, rich media ads, social network advertising, online classified advertising, advertising networks and e-mail marketing.

ONP (Open Network Provision). Principles and conditions laid down by the EU for access to and usage of public telecommunications networks and services. A network architecture that permits telecommunications services to be offered on facilities of public operators and for equipment to be connected to such networks.

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

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

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

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

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

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

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

PCS. Personal communications services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TRX. Radio transceivers located in BTS.

ULL (Unbundling Local Loop). System through which ANO can rent the last mile of local loop, connecting to their equipments.

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

UMTS Cell. Geographical portion of the territory illuminated by a Node B.

UMTS Channels. These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

Unbundling. A process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user s home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier s terminals.

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

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

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

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

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

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VPN (Virtual Private Network). A network designed for a business or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

WAN (Wide Area Network). A private network that covers a wide geographic area using public telecommunications services.

WAP (Wireless Application Protocol). A technology which allows access to the Internet using mobile sets, even without the use of a computer.

WI-FI. A service for wireless Internet connection and high speed access.

WLL (Wireless Local Loop). The means of configuring a local loop without the use of wiring.

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

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

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

4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

GENERAL

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

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

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications. There are no encumbrances that may affect our utilization of our property or equipment.

Real Estate (Land, Civil and Industrial Buildings)

As of December 31, 2011, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

On December 31, 2011, Tim Brasil group owned approximately 201,752 square meters and leased approximately 1,231,486 square meters of real property, all of which were available for installation of our equipment. Tim Brasil group also leases approximately 158,777 square meters and owns approximately 70,201 square meters of office space.

Network Infrastructure (Plant and Equipment)

The Telecom Italia Group network infrastructure includes the domestic and international fixed network, the domestic mobile network, the Brazilian mobile network and the Argentinean and Paraguayan Networks. See -4.4 Glossary of Selected Telecommunications Terms , for definitions of the technical terms used in this section.

Domestic Fixed Network

General. Our domestic fixed network consists of 33 Gateway Areas (each gateway area has two interconnection points enabling information to be exchanged between the fixed and mobile networks) and about 600 main local switches. Each local switch belongs to only one of the 33 gateway areas. It is also possible to interconnect in 12 Aggregation Areas with Backbone Nodes (**BBN**). The long-distance fixed network (Arianna SDH and Phoenix) routes 4,607 VC-4. The fixed long distance network also includes 123 optical channels 2.5 Gbps point to point and more than 562 optical channels 10 Gbps point to point (also called lambdas from the greek letter l used for wavelength in physics). The fixed copper network includes 112.2 million km of copper pairs.

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At December 31, 2011, the domestic fixed network consisted of the following:

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

SDH and ATM. Our Synchronous Digital Hierarchy (**SDH**) transmission systems operate on fiber optics from 155 Mbit/sec up to 10 Gbit/sec. Work on the development of the national network (Long distance) that, by use of the latest generation of SDH technologies and the optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for the transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2011. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 80 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

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

The OPB network is used to transport:

- Internet traffic of residential, business and Wholesale customers;
- VPN traffic (Virtual Private Network) of business customers;
- Voice traffic;
- Video traffic related to IPTV services; and
- Mobile data traffic.

OPM (Optical Packet Metro). At the end of 2011 OPM consisted of 30 metro-regional networks to collect traffic to and from residential customers through DSLAM IP to supply the IPTV and ADSL2+ services. The OPM network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) transport, aggregation as well as direct connection (Node B over optical fiber).

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

Broadband/ADSL network. Telecom Italia s broadband network offers hi-tech telecommunications services and multimedia applications. In 2011, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 7,241 towns, including S. Marino (compared to 7,045 at the end of 2010). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2011 9,002 local switching areas were covered by ADSL technology (compared to 8,784 at the end of 2010, consolidated data).

NGAN (Next Generation Access Network). In 2011 Telecom Italia continued to deploy a New Generation Access Network (**NGAN**), based on fiber optical cables and GPON (Gigabit capable Passive Optical Network) technology. First deployments (in 2008) were done using Fiber To The Building (**FTTB**) architecture and new generation cabinets, equipped with VDSL2 cards; since 2009, Telecom Italia s NGAN has been deployed, mainly based on Fiber To The Home (**FTTH**) architecture. About 850,000 households had been passed by the end of 2011, mainly in the distribution areas of 40 central offices of Milan, Rome, Catania, Turin, Bologna, Bari, Genoa, Venice. For its NGAN plan Telecom Italia normally installs new optical cables; in Milan Telecom Italia has also acquired the right of use (IRU approach) for 15 years on fiber optics owned by Metroweb (an Utility that already owns a widespread optical access network in Milan).

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

Fiber optic cables. At December 31, 2011, approximately 4.55 million kilometers of fiber optic cables have been installed for access and transport. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video.

Domestic Mobile Network

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

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

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

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

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

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

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

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

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

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

International Fixed Network

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

· a fully integrated proprietary cross border backbone operating mainly in Europe and in the United States;

· bilateral connections.

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

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

The cross-border backbone integrates 4 regional networks:

· Europe (**PEB**);

· Latin America backbone;

· Mediterranean basin backbone;

· USA backbone.

In detail:

· **PEB (Pan European Backbone).** Proprietary fiber optic network spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. The overall length of the entire backbone is 55,000 km.

The backbone is a multiservice integrated network (Voice, Data, IP) based on DWDM (Dense Wavelength Division Multiplexing) and SDH (Synchronous Digital Hierarchy) transport techniques and on the Softswitch and IP/MPLS (Internet Protocol/Multi Protocol Label Switching) switching techniques. With respect to switching technologies, the network is equipped with class 4 softswitches and IP routers. The DWDM and SDH transmission technologies are based on 10 Gbit/s and 40 Gbit/s lambdas with traffic protection mechanisms such as MS SPRING (Multiplex Section Shared Protection Ring), SNCP (Sub Network Connection Protection), MSP (Multi Section Protection), OTN (Optical Transport Network) and meshed network.

- **Latin American backbone.** High-capacity backbone based on fiber optic ring networks, terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring has a capacity up to 1.8 Tbit/sec and has automatic optical traffic protection connecting the main cities of South America to Central and North America.

- **Mediterranean backbone**. Submarine ring network, with a highly reliable configuration, a total length of 7,500 km and a design capacity close to 4.5 Tbit/sec connecting the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa, Tel Aviv and Istanbul.

- **USA backbone**. Proprietary high capacity terrestrial backbone with POPs in: Newark, New York, Miami, Ashburn, Atlanta, Chicago, Palo Alto, Los Angeles and Dallas.

The services supplied include voice, IP and managed bandwidth in Europe and in the U.S.A., and managed bandwidth and IP in the Mediterranean and in South America. The platform for services to Multinational Corporate Clients (**MNC**) is integrated with the cross-border network.

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

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

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

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

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

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

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

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

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

Mediterranean Backbone

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

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

Latin American Backbone

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

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

Brazilian Network

Telecom Italia Group s principal properties in Brazil consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment.

As of December 31, 2011, we had 115 mobile switches, 157 thousand TRXs, 6,476 Node B and approximately 24,800 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

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

Argentinean and Paraguayan Network

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

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

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Item 4A. Unresolved Staff Comments

Item 4A. UNRESOLVED STAFF COMMENTS

None.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.

5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS**). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of subjective assumptions and estimates that underlie the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results could differ, even significantly, from these estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

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

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of Management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant subjective assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

Revenue recognition

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

- *Revenues from services rendered*

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

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

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

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

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

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· *Revenues from sales and bundled offering*s

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

For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

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

· *Revenues on construction contracts*

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

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

Allowance for doubtful accounts

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

Accounting for tangible and intangible non-current assets

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

Acquisition accounting, goodwill and purchase price allocation

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

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

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

The purchase price allocation requires that all assets and liabilities be recorded at fair values which requires significant estimates and judgements to be made. A change in any of these estimates or judgments could change the amount allocated to the assets and liabilities. The resulting change in the purchase price allocation to assets or liabilities has a direct impact on the final amount of the purchase price that is allocated to goodwill.

If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

· the definition of the purchase price;

· the identification of the assets acquired and liabilities assumed in the acquisition;

· the valuation of these assets and liabilities in the purchase price allocation; and

· the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the separate consolidated income statement.

Accounting for transactions involving interests in group companies

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

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

Impairment of assets

The determination of impairment of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

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

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

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

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

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

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon of three years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

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

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

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

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

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

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

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets or groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

Financial assets

Financial assets include in particular investments, some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment s carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and rely heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

Derivative financial instruments

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

Provision for employee severance indemnity

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

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

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

Provisions and contingent liabilities

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

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

Income tax expense

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company s ability to generate sufficient taxable income in future years and the reversal of taxable temporary differences, taking into account any restrictions on the carry-forward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss carry-forward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position and results of operations may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate consolidated income statement.

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

5.2.1 Significant Trends Impacting Our Core Businesses

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

Domestic Business Unit

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

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

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

Brazil Business Unit

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

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

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

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

Argentina Business Unit

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

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

5.2.2 Reorganization of Business

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

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

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

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

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

For a description of certain of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units . For purposes of the following discussion selected financial data of each Business Unit has been provided for 2011, 2010, and 2009 consistent with the structure of each Business Unit at December 31, 2011.

5.2.3 Non-GAAP Financial Measures

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

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

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

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

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

5.2.4 Overview of 2011 Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

5.2.5 BUSINESS UNIT FINANCIAL DATA

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

	Domestic	Brazil	Argentina(1)	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total

(millions of euros, except number of employees)

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

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

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(2) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

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

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

v **REVENUES**

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

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

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

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

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

(3) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

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

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

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

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

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

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

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

v OTHER INCOME

Details are as follows:

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

v OPERATING EXPENSES

Our operating expenses amounted to 30,859 million euros in 2011, an increase of 8,851 million euros, or 40.2% compared to 22,008 million euros in 2010. The increase is attributable to the following:

· **Acquisition of goods and services** amounted to 12,859 million euros in 2011, an increase of 1,476 million euros, or 13.0%, compared to 2010 (11,383 million euros). The increase is largely due to the entry of the Argentina Business Unit in the scope of consolidation for the full-year 2011 (+1,052 million euros, including a negative exchange rate effect for 34 million euros) and the significant increase in the sales and technical costs of the Brazil Business Unit the main cause of the overall increase of 879 million euros needed to support the growth of the customer base and sales. Offsetting these increases in part were declines in the domestic business which benefitted from cost cutting actions which contributed to a reduction in purchases of 365 million euros compared to 2010 (-5.1%).

In detail:

Year ended December 31,

	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Purchase of goods	2,525	1,568	957	61.0
Portion of revenues to be paid to other operators and interconnection costs	4,232	4,275	(43)	(1.0)
Commercial and advertising costs	2,259	2,100	159	7.6
Power, maintenance and outsourced services	1,618	1,258	360	28.6
Rent and leases	647	594	53	8.9
Other service expenses	1,578	1,588	(10)	(0.6)
Total acquisition of goods and services	**12,859**	**11,383**	**1,476**	**13.0**
% on Revenues	*42.9*	*41.3*		

· **Employee benefits expenses**

In detail:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses Italian companies:				
· Ordinary expenses of employees excluding actuarial (gains) losses	3,186	3,317	(131)	(3.9)
· Actuarial (gains) losses relating to employee severance indemnities	(117)	(4)	(113)	
· Expenses for collective redundancy procedure (mobilità) under Law 223/91	12	258	(246)	(95.3)
Total employee benefits expenses Italian companies	**3,081**	**3,571**	**(490)**	**(13.7)**
Total employee benefits expenses Foreign companies	**836**	**450**	**386**	**85.8**
Total employee benefits expenses	**3,917**	**4,021**	**(104)**	**(2.6)**
% on Revenues	*13.1*	*14.6*		

The change was affected by:

- the impact of 364 million euros, including the negative exchange rate effect of 11 million euros, due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+11,521 average employees compared to 2010);
- the reduction of the Italian component of ordinary employee benefits expenses, mainly due to the reduction in the average headcount of the salaried workforce by 3,526 compared to 2010 (of which -1,188 are under so-called solidarity contracts in Telecom Italia S.p.A. and Shared Service Center S.r.l.);
- the reduction of 113 million euros owing to the actuarial effects relating to employee severance indemnities in connection both with the change in the economic assumptions (discount rate and inflation rate) and the new law concerning pensions (Law 214 of December 22, 2011) which extends the retirement age;
- lower expenses of 246 million euros in connection with the mobility procedure under Law 223/91. Employee benefits expenses in 2010 included expenses of 258 million euros relating to the start of the mobility procedure under Law 223/91 by the Parent, Telecom Italia, SSC Shared Service Center S.r.l., Telecom Italia Sparkle, Olivetti S.p.A. and Olivetti I-Jet. In 2011, the provisions were adjusted by another 12 million euros, of which 9 million euros is for the Parent, Telecom Italia, and 3 million euros for SSC Shared Service Center S.r.l.

The Group s average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(equivalent number, except percentages)			
Average salaried workforce Italy	53,561	57,087	(3,526)	(6.2)
Average salaried workforce Foreign(1)	24,808	13,063	11,745	89.9
Total average salaried workforce(2)	**78,369**	**70,150**	**8,219**	**11.7**

(1) The increment in the average employees of the salaried workforce is primarily attributable to the consolidation of the Argentina Business Unit for the full year 2011 (15,232 average headcount in 2011).

(2) Includes the average employees with temp work contracts: 87 in 2011 (75 in Italy and 12 outside Italy). In 2010 the headcount was 84 (68 in Italy and 16 outside Italy).

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Group s employees at December 31, 2011 and 2010 were as follows:

	As of December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(units, except percentages)			
Employees Italy	56,878	58,045	(1,167)	(2.0)
Employees Foreign	27,276	26,155	1,121	4.3
Total Employees (1)	**84,154**	**84,200**	**(46)**	**(0.1)**

(1) Includes employees with temporary work contracts: 42 units at December 31, 2011 and 71 units at December 31, 2010.

· **Other operating expenses**

Details are as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	533	478	55	11.5
Accruals to provisions	128	80	48	60.0
Indirect duties and taxes	349	200	149	74.5
TLC operating fees	675	484	191	39.5
Penalties, compensation and administrative sanctions	41	105	(64)	(61.0)
Association dues and fees, donations, scholarships and traineeships	23	24	(1)	(4.2)
Sundry expenses	110	51	59	115.7
Total other operating expenses	**1,859**	**1,422**	**437**	**30.7**
% on Revenues	*6.2*	*5.2*		

Other operating expenses in 2011 grew 437 million euros compared to 2010, largely on account of the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+248 million euros, including a negative exchange rate effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

- writedowns and expenses in connection with credit management include mainly 397 million euros (317 million euros in 2010) attributable to the Domestic Business Unit, 100 million euros (133 million euros in 2010) attributable to the Brazil Business Unit and 29 million euros attributable to the Argentina Business Unit;

- accruals to provisions recorded for pending disputes relate mainly to 60 million euros (18 million euros in 2010) of the Brazil Business Unit, 50 million euros (53 million euros in 2010) of the Domestic Business Unit, and 17 million euros of the Argentina Business Unit;

- TLC operating fees comprise 554 million euros (412 million euros in 2010) attributable primarily to the Brazil Business Unit, 61 million euros attributable to the Argentina Business Unit and 58 million euros to the Domestic Business Unit.

· **Depreciation and Amortization**

Details are as follows:

	Year ended December 31,			
	2011	**2010**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	2,162	2,216	(54)	(2.4)
Depreciation of tangible assets owned and leased	3,332	3,326	6	0.2
Total depreciation and amortization	**5,494**	**5,542**	**(48)**	**(0.9)**
% on Revenues	*18.3*	*20.1*		

The increase in amortization and depreciation charges due to the entry of the Argentina Business Unit in the scope of consolidation (+390 million euros, including a negative exchange rate effect of 13 million euros), was more than offset by the decrease in amortization and depreciation charges of the Domestic Business Unit (-329 million euros) and the Brazil Business Unit (-108 million euros, including the effect of the change in the real/euro exchange rate of +3 million euros).

· **Net gains (losses) on disposals of non-current assets**

Net gains on disposals of non-current assets were 3 million euros. The gain of 35 million euros, net of the relative transaction costs, realized on the sale of Loquendo at the end of September 2011 was offset by net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, net gains on disposals of non-current assets were 11 million euros and included the gain, net of the related transaction costs, of 19 million euros, in connection with the completion of the transactions for the sale of Elettra by the Domestic Business Unit International Wholesale.

· **Net impairment losses on non-current assets**

Net impairment losses on non-current assets amounted to 7,358 million euros in 2011 (63 million euros in 2010).

This item includes 7,307 million euros for the impairment charge on the goodwill allocated to the Core Domestic cash-generating unit in the Domestic Business Unit and 57 million euros for the impairment charge on the goodwill allocated to the Media Business Unit, which had been written down by 46 million euros in 2010.

In particular, in preparing the annual financial statements, the Telecom Italia Group repeated the impairment test that had been performed in the first half of 2011 which led to the recognition, in the Half-year Financial Report at June 30, 2011, of an impairment loss of 3,182 million euros relating to the Core Domestic cash-generating unit.

Macroeconomic and market conditions have reflected a slowdown in the higher growth emerging economies and fears of a recession in many mature economies, in particular countries in the Euro zone, which has been particularly acute in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to higher interest rates for the Italian government. The impairment test therefore took into account the deterioration of the financial markets in general terms, with reference to interest rates, while worsening expectations regarding the market prospects of the Domestic and Media Business Unit were major factors in making the determination of impairment in specific terms.

It should be emphasized that the cost of capital of the Core Domestic CGU recorded a significant increase compared to December 31, 2010, principally due to the rise in long-term rates of the sovereign securities of Italy, from 7.90% to 8.90%.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Furthermore, this item includes other impairment charges on tangible assets.

v OPERATING PROFIT (loss)

Operating loss was 603 million euros in 2011 (operating profit of 5,818 million euros in 2010). The operating loss is attributable to the impact of the impairment charge of 7,364 million euros on the goodwill allocated to the Domestic and Media Business Units.

v SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
EtecSA (Cuba).		84	(84)	(100.0)
Italtel group	(38)	3	(41)	
Other	(1)	12	(13)	(108.3)
Total	**(39)**	**99**	**(138)**	**(139.4)**

The Share of profits (losses) of associates and joint ventures accounted for using the equity method was a loss of 39 million euros in 2011 (profit of 99 million euros in 2010). In particular, the year 2011 was negatively affected by the writedown of the entire investment in the Italtel Group: taking into account the overall macroeconomic situation and the specific prospects of future evolution of the company s business led us to conclude that the recovery of our investment in this associate was not probable.

The year 2010 included the positive contribution of our investment in EtecSA (Cuba), including the share of results up to September 30, 2010 and the reversal of impairment losses (30 million euros) after agreements were reached at the end of 2010 for the sale of the investment which was subsequently finalized on January 31, 2011.

For further details about the above mentioned investments accounted for using the equity method please see Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v OTHER INCOME (EXPENSES) FROM INVESTMENTS

In 2011, Other income (expenses) from investments is an income balance of 16 million euros and includes 17 million euros for the gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010.

In 2010, Other income (expenses) from investments was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

v **FINANCE INCOME (EXPENSES)**

Finance income (expenses) is a net expense of 1,998 million euros (a net expense of 2,074 million euros in 2010), with a positive change of 76 million euros largely arising from lower net debt exposure.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **INCOME TAX EXPENSE**

Income tax expense is 1,643 million euros an increase of 1,093 million euros compared to 2010 (550 million euros). In particular, income taxes in 2010 included a benefit of more than 600 million euros deriving mainly from the recognition of deferred tax assets by the Brazil Business Unit. Such deferred tax assets are in connection with tax loss carryforwards which became recoverable on the basis of the prospects of earnings of the companies in the Business Unit. In addition to this effect, the increase in income taxes was also due to the higher taxable base of the Parent, Telecom Italia, the Brazil Business Unit as well as the consolidation of the Argentina Business Unit for the full year 2011.

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

In 2011, the balance is a loss of 13 million euros and includes expenses incurred in connection with sales transactions of prior years. In 2010, the balance was a loss of 7 million euros and included the same type of transactions.

5.2.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2011 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2010

v **DOMESTIC**

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	19,032	20,068	(1,036)	(5.2)
Operating profit (loss)	(1,945)	5,162	(7,107)	
· *% of Revenues*		*25.7*		
Capital expenditures	4,200	3,106	1,094	35.2
Employees at year-end (units)	55,389	56,530	(1,141)	(2.0)

Revenues decreased by 1,036 million euros, or 5.2%, from 20,068 million euros in 2010 to 19,032 million euros in 2011.

In detail, an analysis of the Domestic Business Unit s revenues by market segment is as follows:

· **Core Domestic**

	Year ended December 31,			
	2011	**2010**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages and employees)			
Revenues(1)	18,123	19,065	(942)	(4.9)
· *Consumer*	*9,217*	*9,739*	*(522)*	*(5.4)*
· *Business*	*3,267*	*3,509*	*(242)*	*(6.9)*
· *Top*	*3,322*	*3,511*	*(189)*	*(5.4)*
· *National Wholesale*	*2,103*	*2,076*	*27*	*1.3*
· *Other*	*214*	*230*	*(16)*	*(7.0)*
Operating profit (loss)	(2,088)	4,967	(7,055)	
· *% of Revenues*		*26.1*		
Capital expenditures	4,124	3,027	1,097	36.2
Employees at year-end (units)	54,380	55,475	(1,095)	(2.0)

(1) Data are net of intersegment transactions.

In 2011, except for National Wholesale, revenues in all segments declined but reflected an improving trend during the course of the year due to the growth of the mobile customer base, a reduction in the loss of fixed accesses and the effectiveness of new offers both in terms of the slowdown in price reductions and the development of new services (Broadband and ICT). In particular:

- **Consumer:** the Consumer segment reported a decrease in revenues of 522 million euros (-5.4%) compared to 2010. Despite the overall decrease a trend of improvement was evident during the year compared to the same periods of 2010 (-0.4% in the fourth quarter of 2011, -4.0% in the third, -6.4% in the second, -9.2% in the first). 2010 included revenues of 35 million euros relating to the end of the 1001TIM loyalty program which had resulted in the recognition of revenues from previously deferred bonus points that had not been used by the customer. The decrease was attributable to a decline in revenues from services. This decline was attributable to traditional voice services, both mobile and fixed, that were only partly offset by higher mobile internet revenues (+81 million euros, or +17.8% compared to 2010 and +28 million euros, or +22.6% in the fourth quarter compared to the same period of the prior year).

- **Business:** in 2011, revenues in the Business segment decreased by -242 million euros (-6.9%), although there was an improving trend since the beginning of the year. This decline principally relates to the mobile services and traditional fixed-line voice services, with the latter, in particular, attributable to the smaller customer base (-5.8% compared to 2010).

- **Top:** the reduction in revenues in 2011 by the Top segment was 189 million euros (-5.4%) compared to 2010. Such decline principally related to revenues from services (-144 million euros, or -4.8%), due, in particular, to a decline in fixed telephony and a reduction in per unit mobile voice revenues which was only partially compensated by the growth in fixed-line ICT.

- **National Wholesale:** the increase in the revenues of National Wholesale (+27 million euros, or +1.3%) was generated by the growth of the customer base of ANOs utilizing services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

- **International Wholesale**

	Year ended December 31,			
	2011	**2010**	**Change**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages and employees)			
Revenues	1,393	1,569	(176)	(11.2)
· *Of which third parties*	*960*	*1,099*	*(139)*	*(12.6)*
Operating profit	143	194	(51)	(26.3)
· *% of Revenues*	*10.3*	*12.4*		
Capital expenditures	76	82	(6)	(7.3)
Employees at year-end (units)	1,009	1,055	(46)	(4.4)

Revenues of International Wholesale (the Telecom Italia Sparkle group) were 1,393 million euros in 2011, down 176 million euros, or -11.2% compared to 2010. Such decline is almost entirely due to voice services (-167 million euros, or -14.8%), which were adversely impacted by strong price pressure caused by market competition and also measures to rationalize the sector based on a more selective approach in terms of the quality of the customer portfolio and traffic, without any significant impact on margins. Revenues in 2010 included 29 million euros generated by the subsidiary Elettra which was sold in September 2010.

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In addition to the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below.

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

	Year ended December 31,								
	2011			2010			Change %		
Market segment	**Total**	**Fixed (1)**	**Mobile (1)**	**Total**	**Fixed (1)**	**Mobile (1)**	**Total**	**Fixed (1)**	**Mobile (1)**
	(millions of euros, except percentages)								
Consumer	9,217	4,409	4,973	9,739	4,674	5,275	(5.4)	(5.7)	(5.7)
Business	3,267	2,182	1,126	3,509	2,336	1,220	(6.9)	(6.6)	(7.7)
Top	3,322	2,585	826	3,511	2,724	887	(5.4)	(5.1)	(6.9)
National Wholesale	2,103	3,028	154	2,076	2,934	234	1.3	3.2	(34.2)
Other	214								