

TELECOM ITALIA S P A
Form 6-K
May 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF MAY 2009

Telecom Italia S.p.A.

(Translation of registrant's name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

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

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

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

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

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

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

our ability to successfully implement our strategy over the 2009-2011 period;

our ability to successfully achieve our debt reduction targets;

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

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

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

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

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

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

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

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

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the impact of political developments in Italy and other countries in which we operate;

the impact of fluctuations in currency exchange and interest rates;

our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;

our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil);

the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and

the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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

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Letter to the Shareholders

To our Shareholders,

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

**Profile of the Company
and business trends in 2008**

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

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

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

**A new climate
the rapport with the Regulator**

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

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

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

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

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

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

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

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

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

**Brazil a return
to excellence**

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

Sustainability

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

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

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

Why trust is justified

Gabriele Galateri di Genola

Franco Bernabé

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Selected financial and operating data - Telecom Italia Group

2008 Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Selected financial and operating data - Telecom Italia Group

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

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Selected financial and operating data - Telecom Italia Group

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

Consolidated balance sheet data⁽²⁾

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

Headcount, number in the Group at year-end ⁽⁴⁾

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

Headcount, average equivalent number in the Group ⁽⁴⁾

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

Consolidated profit ratios

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

Operating data

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

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

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Selected financial and operating data - Telecom Italia Group

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The operating and financial results of the Telecom Italia Group for the year 2008 and the comparative figures for the preceding years have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS).

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

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

Furthermore, particularly the part entitled Business Outlook for the Year 2009 contains forward-looking statements. These statements are based on the Group's intentions, beliefs or current expectations regarding financial performance and other aspects of the Group's operations and strategies. Readers are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which is beyond the scope of the Group's control.

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Selected financial and operating data - Telecom Italia Group

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Corporate boards at December 31, 2008

Board of Directors

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

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

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

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

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

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

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

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

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

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

Board of Statutory Auditors

Chairman
Acting Auditors

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

Alternate Auditors

Independent Auditors

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

Manager responsible for preparing the corporate financial reports

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

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

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Corporate boards at December 31, 2008

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Macro-organization chart -

Telecom Italia Group at December 31, 2008

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

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| | | |
|--|------|------------------------|
| Share capital | euro | 10,673,803,873,70 |
| Number of ordinary shares (par value euro 0.55 each) | | 13,380,795,473 |
| Number of savings shares (par value euro 0.55 each) | | 6,026,120,661 |
| Number of Telecom Italia ordinary treasury shares ⁽¹⁾ | | 26,272,014 |
| Number of Telecom Italia ordinary shares held by Telecom Italia Finance S.A. | | 124,544,373 |
| Percentage of treasury shares held by the Group to share capital | | 0.78% |
| Market capitalization (based on December 2008 average prices) | | 18,809 million of euro |

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

Major holdings in share capital

At December 31, 2008, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120, and other sources of information, the principal shareholders of Telecom Italia ordinary share capital are as follows:

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

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

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

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Common representatives

Carlo Pasteris is the common representative of the savings shareholders for the years 2007-2009. Francesco Pensato is the common representative of the bondholders for the following bonds:

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

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

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

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

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

Relative performance Telecom Italia S.p.A.

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

Relative performance Telecom Italia Media S.p.A.

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

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Relative performance Tim Participações S.A.

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

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

Rating at December 31, 2008

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

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

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

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

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

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

Telecom Italia Group

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

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

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

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

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

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

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

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

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

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

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

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

2008 consolidated operating performance:

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

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

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

Revenues

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

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

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

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

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

The breakdown of Revenues by operating segment is the following:

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

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

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Review of financial and operating performance - Telecom Italia Group

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

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

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

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

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

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

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

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

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Review of financial and operating performance - Telecom Italia Group

Table of Contents**EBITDA**

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

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

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

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

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

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

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

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

Acquisition of goods and services

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

In detail:

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

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

Employee benefits expenses

Details are as follows:

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

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

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

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

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

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

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

The average number of the salaried workforce is the following:

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

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

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

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

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

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

Other income

Details are as follows:

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

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

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Review of financial and operating performance - Telecom Italia Group

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Details are as follows:

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

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

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

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

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

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

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

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

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

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

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Review of financial and operating performance - Telecom Italia Group

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

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

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

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

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

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

Details are as follows:

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

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Review of financial and operating performance - Telecom Italia Group

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Details are as follows:

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

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

Finance income (expenses)

Details are as follows:

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

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

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

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

Income tax expense

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

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

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

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

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

lower taxable income.

Loss from Discontinued operations/Non current assets held for sale

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, fully hedging exchange rate risk and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

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

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

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

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

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

(*) Net of monetary flows of assets sold

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

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

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

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

Capital expenditures flow

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

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

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

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

Disposal of investments and other divestitures flow

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

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

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Treasury shares buyback flow

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

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

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

Financial investments flow

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

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

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

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

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

Sale of receivables to factoring companies

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

Gross financial debt

Bonds

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

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Changes in bonds during 2008 are as follows:

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

NOTES

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

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

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

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

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

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

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

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

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

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

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

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

Maturities of financial liabilities and average cost of debt

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

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

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

Maturities of financial liabilities:

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

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

Current financial assets and Liquidity margin

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

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Table of Contents**Treasury policies**

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

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

allocating liquidity where necessary

obtaining excess cash resources from the Group companies

guaranteeing an adequate level of liquidity compatible with individual needs

acting on behalf of its subsidiaries to negotiate bank lines

providing financial consulting services to its subsidiaries

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

Consolidated equity

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

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

Discontinued operations

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

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

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

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

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

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

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Events subsequent to December 31, 2008

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

Business outlook for the Year 2009

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

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

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

Capital expenditures for approximately 4.8 billion of euro;

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

Major risks and uncertainties

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

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

Macroeconomic performance

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

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

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

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

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

strong discipline with regard to monetary policy;

a relatively low unemployment rate.

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

Trend of the Telecommunications market

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

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

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

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

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

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

Financial risks

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

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

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

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

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

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Business outlook for the Year 2009

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

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Consolidate financial statements - Telecom Italia Group

Table of Contents**Consolidated balance sheets**

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

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Consolidate financial statements - Telecom Italia Group

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

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

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Consolidate financial statements - Telecom Italia Group

Table of Contents**Consolidated cash flows statements**

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

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Consolidate financial statements - Telecom Italia Group

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

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

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

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

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Consolidate financial statements - Telecom Italia Group

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

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

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

Brazil Business Unit: Telecommunications operations in Brazil

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

Media Business Unit: Television and News activities;

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

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

Information by operating segment is as follows:

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

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

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

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

⁽¹⁾ Excluding not human SIM.

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

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

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

Highlights - Business Units of the Telecom Italia Group

Table of Contents**The Business Units of the Telecom Italia Group****Domestic****The Business Unit**

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

The structure of the Business Unit

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

Main operating and financial data

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

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

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

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

Table of Contents**Revenues**

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

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

Fixed-line Telecommunications

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

Retail voice

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

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The Business Units of the Telecom Italia Group - Domestic

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

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

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

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

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

Internet

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

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

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

Business Data

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

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

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The Business Units of the Telecom Italia Group - Domestic

Table of Contents**Wholesale**

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

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

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

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

Mobile Telecommunications

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

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

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

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

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

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

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

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

EBITDA

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

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

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

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

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

employee benefits expenses are analyzed as follows:

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

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

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

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

EBIT

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

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

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

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

Capital expenditures

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

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

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

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

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

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

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

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

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

Headcount

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

Key factors

Innovation and products

Fixed-line Telecommunications

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

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

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

Mobile Telecommunications

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

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

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

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

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

Commercial Developments

The main commercial developments are as follows:

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

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

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

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

Main changes to the regulatory framework and price trend

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

Market analysis

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

Telecom Italia's Undertakings

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

Retail fixed markets

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

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

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Wholesale fixed markets

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

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

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

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

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

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

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

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

Mobile market

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

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

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

Summarising table of the 2008-2012 mobile termination rate variations

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

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

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

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

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

Wi-Max Licences

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

Competitive scenario**Fixed-line Telecommunications**

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

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

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

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

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

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

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

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

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

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Mobile Telecommunications

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

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

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

Main operating and financial data

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

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

Revenues

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

EBITDA

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

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

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

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

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

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

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

EBIT

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

Capital expenditures

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

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

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

Headcount

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

Key factors

Innovation and products

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

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

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

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

the signing of important commercial agreements with content suppliers;

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

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

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

Main changes to the regulatory framework and price trend

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

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

Competitive scenario

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

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

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European BroadBand

The Business Unit

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

The structure of the Business Unit

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

Ma