

TELECOM ITALIA S P A  
Form 20-F/A  
October 12, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F/A**

**(Amendment No. 1)**

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended: December 31, 2009**

**OR**

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

**OR**

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

Commission file number 1-13882

**Telecom Italia S.p.A.**

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

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Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Andrea MANGONI

Chief Financial Officer

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.**

Ordinary Shares 13,218,690,552

Savings Shares 6,026,120,661

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

Item 17  Item 18

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

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

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**Explanatory note**

The Company is filing this amendment to its annual report on Form 20-F for the year ended December 31, 2009 (filed with the Securities and Exchange Commission (the "SEC") on May 21, 2010 (the "original filing")) to include a revised audit opinion of the Company's auditors, Reconta Ernst & Young S.p.A. The revised audit opinion has been amended to cover each of the statements of financial position referenced in the first paragraph of their audit opinion. No other changes have been made to the original filing. Please see the revised audit opinion on page F-2 of this amended Form 20-F.

In addition, the Company has attached hereto the exhibits required as a result of this amendment. Except for the revised audit opinion and the exhibit filings, the Company has not made any modifications or updates to the original filing on Form 20-F and all of the other information contained in the original filing remains unchanged. This amendment does not describe other information, events or developments that have occurred since the original filing, and does not modify or update those disclosures affected by any subsequent events. This amendment should be read in conjunction with the Company's filings made with the SEC subsequent to the original filing, as information in such reports and documents may update or supersede certain information contained in this amendment.

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**Introduction**

**INTRODUCTION**

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

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**). The designation **IFRS** also includes all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**). Telecom Italia adopted IFRS for the first time in its annual Consolidated Financial Statements for the year ended December 31, 2005. See Item 3. Key Information 3.3 Selected Financial and Statistical Information.

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2009 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

***Restatement of Financial Statements***

In this Annual Report, we are restating our consolidated financial statements for the years ended December 31, 2008 and 2007, as well as certain financial statement line items for the years ended December 31, 2005 and 2006 included in the selected financial and statistical information section contained elsewhere in this Annual Report.

The restatement of prior years financial statements relate to accounting adjustments made primarily to correct errors as defined in IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) (**IAS 8**) which occurred in the financial years 2005, 2006 and 2007. The determination to restate our prior year financial statements was made when further information became available on February 23, 2010 to the Company in relation to the ongoing criminal investigation involving our subsidiary Telecom Italia Sparkle (**Telecom Italia Sparkle case**), along with data acquired as part of an investigation conducted by an independent legal advisor and accounting firm retained to conduct such investigation. Based on this information, we concluded that certain transactions that occurred only during financial years 2005, 2006 and 2007 were without substance resulting in errors as defined under IAS 8. These errors have been corrected, restating the comparative 2008 and 2007 financial statements presented in this Annual Report.

As a result of the restatement of the financial statements relating to the financial years 2005, 2006, 2007 and 2008 our independent registered accounting firm has withdrawn, in accordance with the audit principles applicable in the United States (PCAOB rules), their audit opinions included in Forms 20-F for the corresponding years. Our independent registered accounting firm has issued an unqualified audit opinion on the Telecom Italia consolidated financial statements for the three years ended December 31, 2009, included in this Annual Report, which includes the restated financial statements for 2008 and 2007.



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Unless otherwise indicated, all financial data included in this Annual Report gives effect to these restatements. For further details, please see Item 5 *Operating and Financial Review and Prospects* 5.1 *Restatement due to errors* and Notes *Restatement as a result of errors and changes in accounting policies* and *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.** The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements.

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

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in

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**Introduction**

competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified particularly in our core Italian market, including regulatory measures regarding pricing and access for other local operators.

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

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

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

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

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- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- our services are technology-intensive and the development of new technologies could render such services non-competitive;
- the impact of political developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make (such as those in Brazil);
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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

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**Key Definitions**

**KEY DEFINITIONS**

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

<b>EU</b>	means the European Union.
<b>IASB</b>	means the International Accounting Standards Board.
<b>IFRS</b>	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards ( <b>IAS</b> ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( <b>IFRIC</b> ), comprising those previously issued by the Standing Interpretations Committee ( <b>SIC</b> ).
<b>Merger</b>	means the merger of Old Telecom Italia into Olivetti, which became effective on August 4, 2003.
<b>Old Telecom Italia and Old Telecom Italia Group</b>	means Telecom Italia as well as Telecom Italia and its consolidated subsidiaries, respectively, as they existed immediately prior to the effective date of the Merger.
<b>Olivetti</b>	unless otherwise indicated, means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
<b>Olivetti Group</b>	unless otherwise indicated, means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
<b>Ordinary Shares</b>	means the Ordinary Shares, 0.55 euros par value each, of Telecom Italia.
<b>Parent</b>	means Telecom Italia S.p.A..
<b>Savings Shares</b>	means the Savings Shares, 0.55 euros par value each, of Telecom Italia.
<b>Telecom Italia</b>	means the entity which resulted from the Merger.
<b>Telecom Italia Group and Group</b>	means the Company and its consolidated subsidiaries.

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### **Telecom Italia Media**

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

### **TIM**

means Telecom Italia Mobile S.p.A., the Company's subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005.

### **Tim Italia**

means the company deriving from the spin-off of TIM's domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006.

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

In addition, due to the changing nature of our business, we now refer to **Accesses** when considering certain statistical and other data. **Access** refers to a connection to any of the telecommunications offered by the

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**Key Definitions**

Group. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and BroadBand service represents two accesses rather than a single customer. In addition, we fully count the accesses attributable to all companies over which we exercise control. The following are the main categories of accesses:

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (×1); basic ISDN (×2); primary ISDN (× between 20 and 30 as an average);
- Internet and data accesses: includes BroadBand accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);
- IP TV (Internet Protocol TV);
- Mobile accesses (includes mobile telephony);
- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL ) or only DSL service (shared unbundled loop, shared UL );
- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and
- Other: includes other circuits for other operators.

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**Item 1. Identity of Directors, Senior Management and Advisers /**

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**Item 3. Key Information**

**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable

**Item 3. KEY INFORMATION**

**3.1 RISK FACTORS**

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

**RISKS RELATED TO THE TELECOM ITALIA GROUP**

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

On April 13, 2010, we set out our strategic priorities for the 2010-2012 period. Our strategy confirms the strategic priorities that the Telecom Italia Group set in December 2008 and in particular:

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- a focus on the strategic Italian and Brazilian markets, with the target of a rapid return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;
- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;
- an ongoing reduction in Group debt.

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

- regulatory decisions and change in the regulatory environment in Italy and other countries in which we operate;
- increasing numbers of new competitors in the Italian telecommunications market which could cause us to lose further market share;
- increasing and stronger market competition in our principal markets with a consequent decline in the prices of services;
- our ability to strengthen our competitive position in Italy through our focus on related markets and in international markets, particularly in Brazil for mobile telecommunications;
- our ability to develop and introduce new technologies which are attractive to the market, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- our ability to manage costs;
- the effect of the global credit crisis and recessionary conditions in the major markets in which we operate;
- our ability to refinance existing indebtedness when due in the capital and bank markets;
- our ability to attract and retain highly qualified employees; and
- the effect of exchange rate fluctuations on our operating revenues, margins and financial management.



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**Item 3. Key Information**

**Risk Factors**

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

*The global economic crisis adversely affected our business in 2009 and continuing global economic weakness could further adversely affect our businesses and therefore have a negative impact on our operating results and financial condition.*

The global economic crisis during 2009 included a general contraction in consumer spending, with the impact on consumer spending varying between geographical areas and different markets. Economic weakness, particularly in our domestic market, is expected to continue for at least the whole of 2010.

In Italy, the recession has had the greatest impact on the demand for investments and on the purchase of consumer durable goods and items of mass-consumption, with Gross Domestic Product ( **GDP** ) declining in 2009. In 2010, GDP is expected to remain stable.

Telecommunications has proven to be one of the industrial segments least affected by pro-cyclical trends since our society has an increasing need to communicate. However, recessionary conditions have weighed, and may continue to weigh, heavily on the development prospects of our domestic market, particularly with regard to the penetration of the next phase of value-added services and the volume of business, key elements of the Group's strategic plan. This applies particularly to the business clientele segment (professionals and small and medium-size businesses), where it is more likely that recessionary conditions could have a negative effect on revenues.

With respect to the South American market, and especially Brazil, throughout 2009 and at least through the date hereof, the volatility that has been typical of emerging market economies during international economic crises is much less pronounced than in the past. In this context, the outlook for 2010 is for modest economic growth compared with the rapid growth of the past several years.

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

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

Our gross financial debt was 44,397 million euros at December 31, 2009 compared with 42,794 million euros at December 31, 2008 (restated) and our net financial debt was 34,747 million euros at December 31, 2009 compared with 34,039 million euros as of December 31, 2008 (restated).

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

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

Factors which are beyond our control such as deterioration in the performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, continuing disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions also as a result of the continuing financial crisis, could have a significant effect on our ability to reduce our debt, or the ability of the Telecom Italia Group to refinance existing debt through further access to the financial markets.

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**Item 3. Key Information**

**Risk Factors**

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

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

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

*Our business depends on the upgrading of our existing networks.*

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

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

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

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

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We are subject to numerous risks relating to legal, competition and regulatory proceedings in which we are currently a party or which could develop in the future. We are also the subject of a number of investigations by judicial authorities. Legal, competition and regulatory proceedings and investigations are inherently unpredictable. Legal, competition and regulatory proceedings and investigations in which we are, or may become, involved (or settlements thereof) may have a material adverse effect on our results of operations and/or financial condition. Furthermore, our involvement in legal, competition and regulatory proceedings and investigations may adversely affect our reputation.

The Italian Collective Action for Damages for the Protection of Consumers was passed in December 2007 and, after undergoing substantial modifications by the Italian Parliament, entered into force on January 1, 2010. The law allows collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action law. Therefore there is a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers.

Due to developments in the Telecom Italia Sparkle case the Company restated prior year financial statements for 2008, 2007, 2006 and 2005.

For information concerning the most important legal, competition and regulatory proceedings and investigations in which we are involved, see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 3. Key Information****Risk Factors***Risks associated with Telecom Italia's ownership chain.*

Telco S.p.A. ( **Telco** ) a company in which interests are held by Generali group (30.58%), Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), and Telefónica S.A. (Telefónica) (46.18%) is Telecom Italia's largest shareholder, holding an interest of approximately 22.45% of the voting rights.

On October 28, 2009, the shareholders of Telco informed us that Sintonia S.A. ( **Sintonia** ) had exercised its right to apply for the demerger provided for in the April 28, 2007 Shareholders Agreement ( **Shareholders Agreement** ) and exit Telco.

On that same date, the parties to the Shareholders Agreement, other than Sintonia, entered into an amending agreement by which they agreed to renew the Shareholders Agreement for a further three year period, and thus effective from April 28, 2010 up to April 27, 2013. It was also agreed that procedures be evaluated with Sintonia to enable it to withdraw from the capital of Telco as an alternative to the demerger.

On December 22, 2009, Telco and Sintonia completed (i) the acquisition for cash by Sintonia of the Telecom Italia shares held by Telco attributable to it pro-rata (approximately equal to 2.06% of the ordinary share capital) and (ii) the acquisition by Telco of Sintonia's entire shareholding in the share capital of Telco (equal to 8.39% of the share capital) which shareholding has now been cancelled.

Although Telco does not own a controlling interest in Telecom Italia's voting shares, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors (in the Shareholders' Meeting on April 14, 2008 12 out of 15 Board members were elected, as a result of Telco's proposal). In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia's other Ordinary Shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco. In addition, Telefónica is the largest shareholder of Telco. Presently Telefónica and Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. Such agreements provide that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at board of directors meetings which discuss matters relating to members of the Group in countries where Telefónica and Telecom Italia compete. Specific additional matters have been agreed with respect to Telecom Italia's operations in Brazil. The presence of Telefónica in Telco has, however, resulted in legal and regulatory proceedings in Argentina, which are still pending. For further information, please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.1 The Shareholders' Agreements and Item 10. Additional Information 10.1 Corporate Governance . See also Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

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

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

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Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws pursuant to compulsory legal provisions. The exercise of such powers could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer.

On March 26, 2009, the European Court of Justice declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the Court's ruling, the alleged infringement of the EC Treaty arises due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury's special powers, so that investors are not in a position to know in what situations the powers will be used. Although such ruling may be relevant and binding for the Italian Government, the ruling does not have any immediate, direct impact on the aforementioned provisions and Telecom Italia's bylaws.

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

**RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS**

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

Our business is dependent to a large degree on general economic conditions in Italy and our other principal market, Brazil, including levels of interest rates, inflation, taxes and general business condition. A significant deterioration in economic conditions could adversely affect our business and results of operations. The weak economic conditions of 2009 had an adverse impact on our business, particularly in Italy. We may also be adversely affected by political developments in other countries where we have made significant investments. Certain of these countries have political and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments.

Uncertainty about current global economic conditions poses a significant risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Economic difficulties in the credit markets and other economic conditions, such as a recession currently being experienced or the risk of a potential recession, may reduce the demand for or the timing of purchases of our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our growth targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

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

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

As a member of the European Union (the "EU"), Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The review of the EU common regulatory framework was approved at the end of 2009 and is expected to be implemented in Italy by May 25, 2011.

Included within the regulatory framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (the "Italian Communications Authority" or "AGCom") to identify operators with

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significant market power ( **SMP** ) based on a market analyses in relevant separate retail and wholesale markets, identified in an EC Recommendation, in which it is considered necessary to intervene to protect free competition. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power .

During 2006 and 2007, AGCom concluded the first round of the market analyses, identified Telecom Italia as having SMP in the mobile termination market and in all the relevant fixed line markets and, as a result, imposed a number of regulatory constraints, including: a requirement to conduct business in a transparent and non-discriminatory way, a price control mechanism (Price Cap) placing certain limits on the ability to change prices for certain services and a requirement to provide interconnection services, leased lines and unbundled access to the local loop to other operators at cost-orientated prices, subject to specific network caps.

These constraints have had an adverse impact on our fixed line network pricing and service offerings and future regulatory decisions may continue to have an adverse impact on our market shares and margins.



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

In December 2008, AGCom approved Telecom Italia's voluntary undertakings (the **Undertakings**) to improve the equality of treatment in the provision of access services to other operators to Telecom Italia's network, where Telecom Italia has SMP. The formal implementation of the Undertakings was to be in place by March 31, 2010 and implementation appears to be on track. The closing of a number of regulatory proceedings against Telecom Italia will depend on the assessment by AGCom of the actual fulfillment of the Undertakings.

Since the end of 2007 AGCom conducted various proceedings to carry out a second round of market analyses to determine whether to maintain, amend or withdraw the obligations in force.

During 2008 AGCom concluded the second round of analyses of the mobile markets. In particular, as to the mobile call termination market, AGCom required a gradual reduction of the termination rates over a four year period (2009-2012) and provided the introduction of a new cost model which could lead, probably in the coming years, to further reductions of the termination rates, under EU pressure. International roaming is regulated at EU level by a specific regulation recently extended to SMS and data. The EU Regulation could exert regulatory pressure on SMS and data (as to prices and transparency measures) also at national level. The EU Commission will have to review the Regulation and to assess whether further proposals are necessary.

The second round market analyses proceedings with respect to the fixed line markets suspended until AGCom approved the Telecom Italia Undertakings established in December 2008 is almost concluded. To date, AGCom has reviewed the regulations focusing on wholesale obligations while relaxing retail regulations.

The regulatory approach to Next Generation Access has not been completely defined with respect to the implementation conditions for fiber access services. As Next Generation Access will require significant investments, the regulatory uncertainty regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on the Group's cash flows and financial condition.

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

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

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For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see Item 4. Information on the Telecom Italia Group 4.3. The Regulatory framework section.

*We operate under licenses, authorizations and concessions granted by government authorities.*

Many of our activities require licenses, authorizations or concessions from governmental authorities. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of our licenses, authorizations and concessions are subject to review by regulatory authorities and to interpretation, modification or termination by these authorities. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms. Moreover, licenses, authorizations and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors. As licenses, authorizations and concessions approach the end of their terms, we intend to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, although we cannot guarantee that we will always complete this process successfully.

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

*Strong competition in Italy may further reduce Telecom Italia's core market share for telecommunication services and may cause further reductions in prices and margins thereby having an adverse effect on its results of operations.*

Strong competition exists in all of the principal telecommunications business areas in Italy in which Telecom Italia operates, including, most significantly, the fixed-line and mobile voice telecommunications and BroadBand businesses. The use of the single European currency and the liberalization of the Italian telecommunication market (since January 1998) have intensified competition by facilitating international operators entry into the Italian market and direct competition with Telecom Italia's fixed-line and mobile telephony businesses, particularly in the local and long-distance markets, and BroadBand.

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

Moreover convergence creates economic links among the Telecommunications ( **TLC** ), Information Technology ( **IT** ), Media and Devices/Consumer Electronic ( **Devices/CE** ) markets, enabling lateral competition for different participants in these markets (from competition within the same technology to competition on the whole value chain). The ability to compete will determine value transfer among markets.

This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere. We face competition from international competitors who have entered local markets to compete with existing operators as well as new local operators, each of which has increased the direct competition we face in our Italian domestic fixed-line and mobile telephony businesses, in the local and long-distance markets, and BroadBand.

Competition in Telecom Italia's principal lines of business could lead to:

- further price and margin erosion for its products and services;
- a loss of market share in core markets;

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

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

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*Our business may be adversely affected and we may be unable to increase our revenues if we are unable to continue the introduction of new services to stimulate increased usage of our fixed and wireless networks.*

In order to sustain growth in revenues despite increased competition and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line, wireless and BroadBand business and in new addressable closely related markets (IPTV, ICT, Online advertising, Digital Home and Service Exposure). In recent years our strategy to increase revenues has been to focus on increasing the loyalty of our customer base, increasing penetration of the BroadBand retail market and IPTV and fostering the growth of mobile interactive services. These markets have been growing in recent years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand, our revenues may not grow, or may even decrease, as revenues from other parts of our business, particularly our traditional fixed-line business, may decline due to competition or other price pressures.

In addition, these strategic initiatives have required, and will continue to require, substantial expenditure. Although these initiatives are core to our strategy, we may be unable to introduce commercially these new products and services and, even if we introduce them, there can be no assurance they will be successful.

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

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

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

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

In recent years, mobile communications markets have been approaching maturity levels in our domestic market in the voice services segment although the data and value-added services segments continue to grow.

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

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

In addition, as our core domestic Italian market has become increasingly saturated, the focus of competition has shifted to customer retention from customer acquisition, and increasing the value of existing customers. Such focus could result in increased expenses to retain customer loyalty or if we are unable to satisfactorily offer better value to our customers our market share and revenues could decline.

If the mobile telecommunications markets in which we operate do not continue to expand, or we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed.

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

The continuing development of Internet and BroadBand services is an important element of our growth strategy and means to increase the use of our networks in Italy and abroad. Our strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Our ability to successfully implement this strategy may be affected if:

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

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

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

We intend to focus on IT-TLC convergence by addressing the ICT market, in particular offering network and infrastructure management, as well as application management and professional services. We expect to experience increasing competition in this market as additional competitors (mainly Telco operators through acquisition and partnership with IT operators) also enter this market.

We will need to make additional investments in this market as Italy has significantly lower IT investment over GDP compared with the U.S. and other European countries.

There is no assurance that the services offered will be successful; as a result we could fail to attract sufficient customers which would allow this market to become profitable.

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

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

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

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

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

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular Brazilian Real) may adversely affect our consolidated results. A rise in the value of the Euro relative to other currencies in certain



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countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

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

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

*Telecom Italia might be adversely affected if the allegations into the investigation of Telecom Italia Sparkle are found to have merit.*

On February 23, 2010, the Italian Finance Police, at the request of the Prosecutor's Office of Rome (the **Prosecutor**), served our subsidiary Telecom Italia Sparkle with a court order (the **Order**) in connection with an ongoing investigation regarding Telecom Italia Sparkle and several individuals, including certain employees, former employees and former directors of Telecom Italia Sparkle, regarding, inter alia, alleged cross border criminal conspiracy, tax evasion, international money laundering, reinvestment of profits from criminal activities, and registering assets under a false name. The Order:

- a) set a fast track hearing procedure concerning the *request to apply the measure to prohibit Telecom Italia Sparkle from performing activities and to be replaced with a judicial arbitrator* pursuant to Legislative Decree No.231/2001 ( **Law 231** ); and
- b) also provided for the seizure of approximately 298 million euros as an interim measure, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation.

The charges of cross border criminal conspiracy, international money laundering and reinvestment of profits from criminal activities are possible offenses that may entail administrative liability for a corporation in accordance with Law 231.

The investigation refers to certain sales transactions effected in the financial years 2005, 2006 and 2007 related to Premium telecommunications services carried over the Telecom Italia Sparkle network and conducted with a number of small telecommunications carriers resident in the European Union (EU).

In anticipation of the Preliminary Investigating Magistrate's decision, the Board of Directors of Telecom Italia Sparkle appointed an independent party to carry out an analysis of the internal control system and of the Organisational Model 231. In accordance with Law 231, the employees involved in the investigation have either been suspended or, for those imprisoned, their employment was terminated.

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In addition to the amounts seized, Telecom Italia Sparkle provided guarantees for 195 million euros, of which 72 million euros corresponds to the potential seizure of profits generated by the sales transactions noted above, and 123 million euros corresponds to the difference between the amount already seized and corresponding to the VAT deducted during tax years 2005, 2006 and 2007 (298 million euros), and the highest amount the company could potentially owe in settlement of its tax position regarding the use of VAT credits on the basis of one of the possible settlement procedures with the Italian Tax Authorities.

Drawing upon information available under the Order and following an independent documentary investigation by legal and accounting advisors for Telecom Italia Sparkle, we concluded that in accordance with IAS 8 we would restate prior year financial statements for 2005, 2006, 2007 and 2008. In connection with our 2009 financial statements, we have established an accrual of 507 million euros relating to certain VAT claims made mainly in connection with the sales transactions in 2005, 2006 and 2007.

For further details regarding the restatement, please see *Item 5 Operating and Financial Review and Prospects 5.1 Restatement due to errors and Notes Restatement as a result of errors and changes in accounting policies and Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Telecom Italia may be further adversely affected if the allegations into the investigation of Telecom Italia Sparkle are found to have merit.

**Table of Contents****Item 3. Key Information****Exchange Rates****3.2 EXCHANGE RATES**

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate ) of 1.00= U.S.\$ 1.4332, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the **Noon Buying Rate** ) on December 31, 2009.

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

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

The following table sets forth for the years 2005 to 2009 and for the beginning of 2010 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per 1.00.

<b>Calendar Period</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>At Period end</b>
2005	1.3476	1.1667	1.2448	1.1842
2006	1.3327	1.1860	1.2563	1.3197
2007	1.4862	1.2904	1.3705	1.4603
2008	1.6010	1.2446	1.4725	1.3919
2009	1.5100	1.2547	1.3936	1.4332
2010 (through May 6, 2010)	1.4536	1.2689	1.3679	1.2689
<b>Monthly Rates</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>At Period end</b>
October 2009	1.5029	1.4532	1.4821	1.4755
November 2009	1.5085	1.4658	1.4908	1.4994
December 2009	1.5100	1.4243	1.4579	1.4332
January 2010	1.4536	1.3870	1.4266	1.3870
February 2010	1.3955	1.3476	1.3680	1.3660
March 2010	1.3758	1.3344	1.3570	1.3526
April 2010	1.3666	1.3130	1.3417	1.3302
May 2010 (through May 6, 2010)	1.3183	1.2689	1.2950	1.2689

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

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

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

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**3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION**

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2009, 2008, 2007, 2006 and 2005, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB.

As discussed in the Note *Restatement as a result of errors and changes in accounting policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, following certain adjustments and corrections for errors as defined by IAS 8 made in connection with the Telecom Italia Sparkle case and due to the retrospective application, starting from January 1, 2009, of IFRIC 13 (*Customer Loyalty Programmes*) the comparative data of the corresponding periods of the years 2008, 2007, 2006 and 2005 have been appropriately adjusted and referred to as restated.

As a result of the restatement of the financial statements relating to the financial years 2005, 2006, 2007 and 2008 Reconta Ernst & Young S.p.A. withdrew, in accordance with audit principles as applicable in the United States (PCAOB rules), their audit opinions for the corresponding years on Form 20-F. Reconta Ernst & Young S.p.A. have issued an unqualified audit report on the Telecom Italia consolidated financial statements for the three years ended December 31, 2009 included in this Annual Report.

Until December 31, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information in accordance with Italian GAAP.

Furthermore, pursuant to SEC Release No. 33-8879, *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP*, Telecom Italia includes Selected Financial Data prepared in compliance with IFRS, without reconciliation to U.S. GAAP.

In 2009, the Group applied the accounting policies on a basis consistent with previous years and did not elect the early adoption of any IFRS, except for IFRS 3R (*Business Combinations*) and IAS 27R (*Consolidated and Separate Financial Statements*). The effects of the early adoption of IFRS 3R and IAS 27R are described in the Note *Accounting Policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

In addition, certain non-GAAP financial measures are presented.

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



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	Item 3. Key Information		Selected Financial And Statistical Information			
	2009(1) (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(2)	2009(1)	Year ended December 31, 2008(1) (Restated)      2007(1) (Restated) (millions of euros, except percentages, ratios, employees and per share amounts)		2006(1) (Restated) (Unaudited)	2005(1) (Restated) (Unaudited)
<b>Separate Consolidated Income Statement Data:</b>						
Revenues	33,655	27,163	29,000	29,802	29,785	29,193
Operating profit	6,806	5,493	5,437	5,738	7,269	7,548
Profit before tax from continuing operations	4,137	3,339	2,894	4,120	5,366	5,596
Profit from continuing operations	2,748	2,218	2,217	2,459	2,855	3,200
Profit (loss) from Discontinued operations/Non-current assets held for sale	(771)	(622)	(39)	(99)	(159)	401
<b>Profit for the year</b>	<b>1,977</b>	<b>1,596</b>	<b>2,178</b>	<b>2,360</b>	<b>2,696</b>	<b>3,601</b>
· Profit attributable to owners of the Parent(3)	1,959	1,581	2,177	2,353	2,707	3,127
<b>Investments:</b>						
· Capital expenditures	5,629	4,543	5,040	5,031	4,698	4,916
· Financial	7	6	6	637	206	14,934
<b>Financial Ratios:</b>						
· Operating profit/Revenues (ROS)(%)	20.2%	20.2%	18.7%	19.3%	24.4%	25.9%
· Ratio of earnings to fixed charges(4)	2.51	2.51	2.21	2.67	3.13	3.17
<b>Employees, average number in the Group, including personnel with temporary work contracts:</b>						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)	69,964	69,964	73,508	75,735	77,374	78,258
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	2,168	2,168	3,277	3,893	2,898	6,089
<b>Basic and Diluted earnings per Share (EPS)(5):</b>						

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· <b>Ordinary Share</b>	<b>0.10</b>	<b>0.08</b>	<b>0.11</b>	<b>0.12</b>	<b>0.14</b>	<b>0.17</b>
· <b>Savings Share</b>	<b>0.11</b>	<b>0.09</b>	<b>0.12</b>	<b>0.13</b>	<b>0.15</b>	<b>0.18</b>
<i>Of which:</i>						
<i>From continuing operations:</i>						
· <i>Ordinary Share</i>	<i>0.14</i>	<i>0.11</i>	<i>0.11</i>	<i>0.12</i>	<i>0.15</i>	<i>0.15</i>
· <i>Savings Share</i>	<i>0.15</i>	<i>0.12</i>	<i>0.12</i>	<i>0.13</i>	<i>0.16</i>	<i>0.16</i>
<i>From Discontinued operations/Non-current assets held for sale:</i>						
· <i>Ordinary Share</i>	<i>(0.04)</i>	<i>(0.03)</i>			<i>(0.01)</i>	<i>0.02</i>
· <i>Savings Share</i>	<i>(0.04)</i>	<i>(0.03)</i>			<i>(0.01)</i>	<i>0.02</i>
<b>Dividends:</b>						
· per Ordinary Share	0.0620	0.0500(6)	0.0500	0.0800	0.1400	0.1400
· per Savings Share	0.0756	0.0610(6)	0.0610	0.0910	0.1510	0.1510



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	2009(1) (millions of U.S. dollars, except employees)(2)		As of December 31,				
			2008 (Restated)	2007 (Restated)	2006 (Restated) (Unaudited)	2005 (Restated) (Unaudited)	
<b>Consolidated Statement of Financial Position Data:</b>							
<b>Total Assets</b>	<b>106,778</b>	<b>86,181</b>	<b>85,650</b>	<b>87,428</b>	<b>89,457</b>	<b>96,010</b>	
<b>Equity:</b>							
· Equity attributable to owners of the Parent	32,154	25,952	25,598	25,431	25,622	25,573	
· Non-controlling interests	1,447	1,168	730	1,063	1,080	1,323	
<b>Total Equity</b>	<b>33,601</b>	<b>27,120</b>	<b>26,328</b>	<b>26,494</b>	<b>26,702</b>	<b>26,896</b>	
<b>Total liabilities</b>	<b>73,177</b>	<b>59,061</b>	<b>59,322</b>	<b>60,934</b>	<b>62,755</b>	<b>69,114</b>	
<b>Total equity and liabilities</b>	<b>106,778</b>	<b>86,181</b>	<b>85,650</b>	<b>87,428</b>	<b>89,457</b>	<b>96,010</b>	
<b>Share capital(7)</b>	<b>13,115</b>	<b>10,585</b>	<b>10,591</b>	<b>10,605</b>	<b>10,605</b>	<b>10,599</b>	
<b>Net Financial Debt(8)</b>	<b>43,052</b>	<b>34,747</b>	<b>34,039</b>	<b>35,701</b>	<b>37,301</b>	<b>39,858</b>	
<b>Employees, number in the Group at year-end, including personnel with temporary work contracts:</b>							
· Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	71,384	71,384	75,320	79,238	80,373	83,187	
· Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	2,205	2,205	2,505	4,191	2,836	3,344	

	As of December 31,				
	2009(1)	2008(1)	2007(1)	2006(1)	2005(1)
<b>Statistical Data:</b>					
Fixed-line network connections in Italy at year-end (thousands)	18,525	20,031	22,124	23,698	25,049
Physical accesses (Consumer and Business) at year-end (thousands)	16,097	17,352	19,221	20,540	21,725
BroadBand accesses in Italy at year-end (thousands)	8,741	8,134	7,590	6,770	5,707
<i>Of which retail (thousands)</i>	<i>7,000</i>	<i>6,754</i>	<i>6,427</i>	<i>5,600</i>	<i>3,920</i>
Total numbers of lines at year-end (thousands)	71,958	71,199	67,585	57,860	48,747
<i>Of which numbers of lines at year-end in Italy (thousands)</i>	<i>30,856</i>	<i>34,797</i>	<i>36,331</i>	<i>32,450</i>	<i>28,576</i>
<i>Of which numbers of lines at year-end in Brazil (thousands)</i>	<i>41,102</i>	<i>36,402</i>	<i>31,254</i>	<i>25,410</i>	<i>20,171</i>

(1) For purposes of comparison, the data of the periods under comparison have been appropriately restated because starting from 2009 HanseNet Telekommunikation GmbH has been treated as a Discontinued operations/Non-current asset held for sale.

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- (2) For the convenience of the reader, Euro amounts for 2009 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on May 14, 2010, of 1.00 = U.S.\$ 1.2390
- (3) For the purposes of IFRS, Parent, as used in this Annual Report, means Telecom Italia S.p.A.
- (4) For purposes of calculating the ratio of earnings to fixed charges :

Earnings is calculated by adding:

profit before tax from continuing operations;

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fixed charges (as defined below);

amortization of capitalized interest and issue debt discounts or premiums;

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

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

capitalized interest for the applicable period; and

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

Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

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

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

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

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

- Ordinary Shares was 13,220,792,908 for the year ended December 31, 2009, 13,246,643,947 for the year ended December 31, 2008, 13,254,934,303 for the year ended December 31, 2007, 13,254,860,233 for the year ended December 31, 2006, and 12,283,195,845 for the year ended December 31, 2005;
- Savings Shares was 6,026,120,661 for the years ended December 31, 2009, 2008, 2007 and 2006, 5,930,204,164 for the year ended December 31, 2005.

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

- (6) Telecom Italia's dividend coupons for the year ended December 31, 2009, will be clipped on May 24, 2010, and will be payable from May 27, 2010.

- (7) Share capital represents share capital issued net of the par value of treasury shares.
  
- (8) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.3 Results of Operations for the Three Years Ended December 31, 2009 5.3.3 Non-GAAP Financial Measures .

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

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

Year ended December 31,	Dividends on Ordinary Shares			Dividends on Savings Shares		
	Euros per Share	U.S. dollars per Share(1)	(millions of euros)	Euros per Share	U.S. dollars per Share(1)	(millions of euros)
2005	0.1400	0.1753	1,873.12	0.1510	0.1891	909.94
2006	0.1400	0.1903	1,873.13	0.1510	0.2052	909.94
2007	0.0800	0.1253	1,070.36	0.0910	0.1426	548.38
2008	0.0500	0.066115	667.16	0.0610	0.08066	367.59
2009(2)	0.0500	0.063445	667.16	0.0610	0.077403	367.59

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. As far as year ended December 31, 2009 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on May 6, 2010.

(2) Approved at the Annual Shareholders Meeting held on April 29, 2010. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders Annual Meeting approving the dividends. Telecom Italia's dividend coupons for the year ended December 31, 2009 will be clipped on May 24, 2010, and will be payable from May 27, 2010.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders meeting, which must be held within 120 days after the end of the financial year to which it relates. In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of interim dividends. Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

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

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

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

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

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**Dividend**

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

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

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**Item 4. INFORMATION ON THE TELECOM ITALIA GROUP**

**4.1 BUSINESS**

**4.1.1 BACKGROUND**

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia is a joint-stock company established under Italian law on October 20, 1908 with registered offices in Milan at Piazza degli Affari 2. Telephone number is +39.02.85.95.1. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695, R.A.E.E. number IT0802000000799.

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

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

On July 18, 1997, Old Telecom Italia's predecessor company was merged with and into Società Finanziaria Telefonica per Azioni ( **STET** ), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to Telecom Italia S.p.A. . In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatization of Telecom Italia, selling substantially all of its stake in the Old Telecom Italia Group through a global offering and a private sale to a stable group of shareholders.

On May 21, 1999, Olivetti obtained control of the Old Telecom Italia Group through a tender offer where approximately 52.12% of Old Telecom Italia Ordinary Shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia, whose largest shareholder was Pirelli & C. S.p.A. ( **Pirelli** ), acquired a 28.7% stake in Olivetti.

On December 9, 2002, the Ministry of the Treasury sold its remaining stake in Old Telecom Italia Ordinary and Savings share capital.

On August 4, 2003, Old Telecom Italia merged with and into Olivetti (the **Merger** ). Olivetti, as the surviving company, changed its name to Telecom Italia S.p.A. . Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Olimpia or Pirelli, Olimpia's largest shareholder, increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the acquisition by Telecom Italia of the share capital in TIM that it did not already own (the **TIM Acquisition** ), Olimpia held approximately 17% of Telecom Italia's Ordinary Shares, making it the largest shareholder of Telecom Italia. As a result of a series of transactions in December 2004 and March 2005, Olimpia acquired additional Ordinary Shares reaching a stake of approximately 21.4% of the outstanding Ordinary Shares.



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On June 30, 2005, TIM merged with and into Telecom Italia.

Following the issuance of shares of Telecom Italia in exchange for outstanding shares of TIM held by third parties, as a result of the merger of TIM into Telecom Italia through which the TIM Acquisition was effected, Olimpia's stake was diluted to approximately 18%.

Effective as from March 1, 2006, Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company.

On April 28, 2007, a group of investors (the **Investors** or the **Parties** ), made up of 1) Assicurazioni Generali S.p.A., Sintonia S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. (the **Class A Shareholders** ) and 2) Telefónica S.A. ( **Telefónica** ), entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which the Investors purchased the entire share capital of Olimpia, from Pirelli and Sintonia S.p.A. and Sintonia (together **Sintonia Sellers** ).

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and the Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was completed on October 25, 2007 by Telco, to

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which Ordinary Shares equal to 5.6% of the ordinary share capital were contributed on the same date by Mediobanca S.p.A. and companies of the Generali group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia's ordinary share capital, of which 17.99% was held through Olimpia.

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

With effect from December 18, 2007, Olimpia merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.595% in Telecom Italia's ordinary share capital.

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

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders' agreements concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders that Telecom Italia is aware of are the agreements among the Investors and Telco.

On October 28, 2009, Sintonia requested, pursuant to Article 11(b) of the Shareholders Agreement, the non-proportional de-merger of Telco, with the assignment of its pro-rata share of the assets and liabilities of Telco (comprised of Telecom Italia Shares held by Telco representing approximately 2.06% of Telecom Italia's share capital).

On the same date, the Investors other than Sintonia, Intesa Sanpaolo, Mediobanca, Generali group and Telefónica (collectively, the **Non-Exiting Shareholders** ) acknowledged Sintonia's decision and, by entering into a Renewal Agreement dated October 28, 2009, and effective as of April 28, 2010, (the **Renewal Agreement** ), agreed (i) not to request the non-proportional de-merger of Telco, with the assignment of their corresponding share of Telecom Italia Shares at that time; and (ii) to renew the Shareholders' Agreement for an additional term of three years until April 27, 2013, substantially on the same terms and conditions, except to provide that (a) the right of the Non-Exiting Shareholders to request the non-proportional de-merger of Telco not later than six months prior to the new expiry date will only be exercisable in the period between October 1, 2012, and October 28, 2012, and (b) for an early withdrawal right period exercisable between April 1, 2011, and April 28, 2011, (such Shareholders' Agreement, as amended and renewed, the **New Shareholders Agreement** ).

The Non-Exiting Shareholders also agreed, in the Renewal Agreement, to consider and evaluate together with Sintonia mutually agreed alternatives to permit Sintonia to exit Telco, other than through non-proportional de-merger.

The terms of Sintonia's exit were approved on November 26, 2009, when an extraordinary general meeting of the Telco shareholders unanimously approved a proposal of the Telco board of directors to permit Sintonia to exit Telco in a single transaction consisting of two parts.

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The transaction was concluded on December 22, 2009 when Telco and Sintonia executed a purchase and sale agreement pursuant to which: (i) Sintonia acquired the Sintonia Telecom Italia Shares from Telco for a consideration of 605,254,575.20 euros (equal to a price of 2.20 euros for each Sintonia Telecom Italia Share), and (ii) Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia's Telco shares (equal to 162,752,995 class A shares, constituting 8.39% of Telco's share capital) for a consideration of 293,461,160.95 euros (equal to a price of approximately 1.80 euros for each Telco share) which was equal to the pro rata net asset value of Sintonia's interest in Telco as of December 15, 2009.

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

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**4.1.2 DEVELOPMENT**

The update to the 2010-2012 Strategic Plan announced to the financial market on April 13, 2010, confirms the strategic priorities that the Telecom Italia Group set in December 2008 and in particular:

- a focus on the strategic Italian and Brazilian markets, with the target of a return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;
- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;
- an ongoing reduction in Group debt.

In particular, in December, 2008, the Telecom Italia Group announced, among other things, the new customer-centric approach (consumer, business and Top Client).

Such approach was intended to foster a natural convergence of technology and service offerings on the one side and a more effective use of operational and competitive levers, on the other. In particular, it allowed:

- a better and more thorough segmentation of customer needs;
- the offering of service packages, based on the actual priorities of customers; and
- the re-engineering of Telecom Italia's distinctive capabilities (customer care, sales channels and IT systems).

For more details about the organizational structure, please see 4.1.7 Updated Strategy and 4.1.8 The Organizational Structure .

**4.1.3 BUSINESS**

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

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

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

At December 31, 2009 the Telecom Italia Group was one of the world's largest fixed telecommunications operators with approximately 16.1 million physical accesses (consumer and business) in Italy, a decrease of 1.3 million compared to December 31, 2008. The Wholesale customer portfolio reached approximately 6.2 million accesses for telephone services at December 31, 2009, an increase of approximately 1.2 million compared to December 31, 2008. The overall access market was stable compared to December 2008.

The BroadBand portfolio in Italy reached 8.7 million accesses at December 31, 2009 (consisting of approximately 7.0 million retail accesses and 1.7 million wholesale accesses), an increase of 0.6 million accesses compared to December 31, 2008.

In addition, the Telecom Italia Group had approximately 30.8 million mobile telephone lines at December 31, 2009 (34.8 million at December 31, 2008); the reduction compared to December 31, 2008 can be attributed to a more selective sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

At December 31, 2009, the Telecom Italia Group had 41.1 million mobile telephone lines in Brazil (36.4 million at December 31, 2008).

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**4.1.4 DISPOSALS AND ACQUISITIONS OF SIGNIFICANT EQUITY INVESTMENTS IN 2009**

For a description of disposals and acquisitions of significant equity investments in 2009 please see Note Form, Content and Other General Information , Note Business Combinations and Transactions among Companies Under Common Control , Note Other Non-Current Assets and Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**4.1.5 RECENT DEVELOPMENTS DURING 2010**

The Group announced its results for the first quarter ended March 31, 2010 on May 6, 2010. The press release setting out the first quarter results was filed by the Group on a form 6-K with the SEC on May 6, 2010.

For a description of other recent developments, including the Telecom Italia Sparkle case, please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2009 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**4.1.6 OVERVIEW OF THE TELECOM ITALIA GROUP S MAJOR BUSINESS AREAS**

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

Due to the sale of the BroadBand business in Germany, which was completed on February 16, 2010, HanseNet was classified in Discontinued Operations while the other companies in the European BroadBand Business Unit have become part of Other Operations. Consequently, disclosure for that operating segment is no longer presented and for comparison purposes the income statement has been restated for the various periods under comparison.

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2009:

(\*) Main subsidiaries: Telecom Italia S.p.A.; Matrix S.p.A.; Telenergia S.p.A.; Telecontact Center S.p.A. and PAtH.Net S.p.A.

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For the domestic market, Telecom Italia Group has adopted a new *customer centric* organization; this change involved a new manner of representing the Domestic Business Unit. For more details, please see 4.2 Business Units - 4.2.1 Domestic .

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

For the revenues, operating profit (loss), capital expenditures, number of employees and selected statistical data of the Telecom Italia Group's Business Units please see Item 5. Operating and financial review and prospects 5.3 Results of operations for the three years ended December 31, 2009 5.3.5 Business unit financial data .

#### **4.1.7 UPDATED STRATEGY**

##### ***Strategic Guidelines and Targets for the 2010-2012 Three-year Period (the Plan )***

The updated 2010-2012 Strategic Plan was announced on April 13, 2010, and confirms the strategic priorities that the Telecom Italia Group set in December 2008. These strategic priorities include:

- a focus on the strategic Italian and Brazilian markets, with the target of a return to growth in domestic turnover and an acceleration of revenue growth on the Brazilian market;
- boost cash flow generation by focusing on high profit margin revenues, operating efficiency gains, and selective investment;
- an ongoing reduction in Group debt.

##### ***Domestic market***

On the domestic market, Telecom Italia will continue to pursue the following priorities which it commenced in 2009:

- reverse the trend in revenues by accelerating mobile sector turnaround and building on good fixed-line performance;
- rationalize costs and implementation of the new operating model;
- excellence in customer satisfaction;



- ongoing improvement in dialogue with the regulatory authorities.

The Plan confirms the seven areas of Lean Company model intervention for efficiency enhancement, leading to a further 0.7 billion euros cash cost reduction in addition to the previously announced 2 billion euros over the three-year period 2009-2011, for a total of 2.7 billion euros by 2012.

### ***Brazil***

Brazil remains an important emerging market on which Telecom Italia is keen to continue strengthening its position by leveraging Tim Brasil's ability to exploit opportunities arising from migration from fixed line to mobile.

The Brazil plan for growth is based on three pillars:

- penetration and expansion of market share;
- boost traffic by leveraging the concept of community, and by targeting mobile replacement of fixed lines; and
- selective development of mobile broadband, with the focus on micro-browsing.

The focus in the Brazilian market remains quality of service, leadership in innovation, and a customer-centric approach. Integration with Intelig Telecomunicações Ltda ( **Intelig** ), acquired at the end of 2009, will also enable the Group to pursue convergence, as well as giving a substantial boost to efficiency and cash cost projects. For further details about the integration with Intelig please see 4.2.2 Brazil .

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

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**4.1.8 THE ORGANIZATIONAL STRUCTURE**

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 30, 2010:

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**4.2 BUSINESS UNITS**

**4.2.1 DOMESTIC**

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

The Domestic Business Unit is organized as follows as of December 31, 2009:

(\*) Principal companies: Telecom Italia S.p.A., Matrix S.p.A., Telenergia S.p.A., Telecontact Center S.p.A. and PAtH.Net S.p.A.

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

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

- **Core Domestic:** Core Domestic includes all telecommunications activities related to the Italian market. Revenues indicated in the tables that follow are divided according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the new customer centric organizational model are as follows:
  - **Consumer:** Consumer comprises the aggregate of voice and internet services and products managed and developed for consumers and families in the fixed and mobile telecommunications markets, public telephony and the web portal/services of the Matrix S.p.A.;
  - **Business:** Business consists of the aggregate of voice, data, internet and ICT solutions services and products managed and developed for the SMEs (small and medium-sized enterprises) and SOHO (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top:** Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for the Top, Large Account and Enterprise clientele in the fixed and mobile telecommunications area;

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- **National Wholesale:** National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile operators in the domestic market;
- **Other** (support structures): Other includes:
  - Technology & Operations: services related to the development, building and operation of network infrastructures, real estate properties plant and information technology, in addition to delivery and assurance processes regarding clientele services;

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

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

**V MARKETING AND DISTRIBUTION**

As a result of the newly adopted customer centric approach Telecom Italia revised its sales structure as follows:

***Consumer***

Through December 31, 2009 the sales structure of Telecom Italia was organized according to a vertical, multi-channel approach, in which different types of distribution channels specialized in different customer segments of the market. This approach rewards the focus and customization of the channel-offering-market mapping.

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

- the *Telesales* channel: an *Outbound* network of approximately 11 partners with 1,500 operators supported by less than 61 internal resources;
- the *Push* channel: a network of 40 partners with 650 sales agents assisted by 64 internal resources;
- the *Pull* channel: consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of approximately 4,120 retail points of sale and 340 sub-dealers (at December 2009). The points of sale are geographically widespread and of many different types (direct; franchisee; monobrand; organized and specialized large-scale distribution).

In addition to these partners, there was the *Public Telephone* channel, a network of approximately 50 partners focused on National and International prepaid card services and associated traffic packages.

***Business***

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During 2009, our Business Market Department changed the structure of the commercial channels, by integrating the fixed and mobile offering, according to a customer centric approach.

This new structure can be summarized as:

- *SA Senior Account* channel: a network organized geographically based on about 110 partners focused on high level SME customers;
- *BP Business Partner* channel: a network based on about 90 partners and 1,200 agents, focused both on high value customers (supervising a portfolio of customers) and Soho customers;
- *VAR Value Added Reseller* channel: a network organized geographically based on about 90 partners, focused on VAS development, on customized offering and on complex networks;
- outbound call centre: 3 partners focused on specific canvass and loyalty activities;
- community account: 60 agents focused on vertical segmentation;
- shops: some specific shops (600 of 4,000 shops) offering business products and assistance.

### ***TOP***

The Top Customers (almost 20,500) benefit from direct coverage by almost 670 sales personnel that have a dedicated portfolio to supervise and develop. The main activities include:

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

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*National Wholesale Services*

The National Wholesale Services ( **NWS** ) sales channel manages relationships with approximately 250 other TLC operators, which are both customers and competitors of Telecom Italia. In fact these operators purchase Telecom Italia intermediate network services that are integrated with their infrastructure for resale to their customers.

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

- definition of commercial offers, developed by its marketing staff under the conditions set by regulators;
- marketing through its vendors;
- providing assistance and services through 5 poles distributed in the country and with the help of the functions of Technology;
- developing, managing billing and administrative reports.

The organizational autonomy of NWS allows Telecom Italia, along with other conditions (separation of accounts, compliance with the resolutions of the Authority) to manage transparency and fairness in the relationship with other operators.

**v COMMERCIAL AGREEMENTS**

The main commercial agreements entered into during 2009 by the Domestic Business Unit were as follows:

- At the beginning of 2009, the *Impresa Semplice* plan was launched to offer a portfolio of integrated solutions dedicated to SMEs. The *Impresa Semplice* solutions include accesses to fixed and mobile networks, voice and data communications systems, messaging and collaboration tools, telecommunications products and computer work stations (personal computers, including assistance, original software and in the cloud services), hosting and virtualization of hardware and software resources. Due to high-speed full IP access networks, hardware resources and software applications available at Telecom Italia's Data Centers, companies may also gain access to more sophisticated ICT services at limited costs.
- On March 3, 2009, Telecom Italia executed an agreement with Mediaset through which it will be able to access content in the Mediaset Premium package through Alice Home TV. This package boosts the Telecom Italia IPTV platform with new content adding films, TV series, cartoons and the best of the soccer Serie A TIM Championships.
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On June 5, 2009, Telecom Italia and Aria signed a series of agreements which allow them to focus on their respective strategies and build infrastructure synergies with the aim of closing the Digital Divide and extending high-speed internet access to those areas of Italy that have not yet been reached by ADSL service. The first agreement grants Aria the right to use Telecom Italia's Wi-Max frequencies in the regions of central and southern Italy such as Abruzzo, Umbria, Lazio, Molise, Puglia, Campania, Basilicata, Calabria and Sardegna. At the same time, Aria will see that the minimum coverage is reached, guaranteeing the commitments undertaken with the Ministry of Economic Development. Under the agreement, Telecom Italia may also supply broadband using Wi-Max technology to its own customers throughout Italy, attributable to Aria's white label wholesale package. Finally, due to another agreement, Aria will use Telecom Italia's transport network infrastructure to build its own network.

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

On July 3, 2009, Telecom Italia and 3 Italia executed a co-siting agreement to share access sites to the mobile network relating to both the existing sites and those that will be built in the future. The subject of the agreement is the so-called "passive" infrastructures: poles, cables, power supply and air-conditioning systems and other civil infrastructures. Maintaining the ownership of their own infrastructures, each operator



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will host the mobile stations of their partner with the aim of optimizing network coverage all over the country. The agreement is for three years, is renewable and when fully operational will cover 2,000 sites, ensuring an optimization of investments, a savings of 30% in costs and a reduction in the network development times of each operator.

- In August 2009, Telecom Italia was awarded the LAN 3 Consip Agreement for the supply of equipment to develop the local networks of the Public Administration and the relative services for maintenance, assistance, operations and training of the users. The agreement is for a period of 18 months with a possible extension of another six months with all the Central and Peripheral Administrations of the State, with contracts for periods of 24 or 48 months depending on the estimated maintenance period.
- On September 15, 2009, the Smart Inclusion project was inaugurated at Bambino Gesù Pediatric Hospital in Rome. The project was developed by the Telecom Italia Group with the support of the Ministry of Public Administration and Innovation and with the scientific supervision of CNR-ISOF of Bologna. This is the first initiative in Italy which integrates remote teaching and entertainment and the management of clinical data services on a single technological platform. The project will allow children with long hospital stays to join in social activities by connecting to the outside world in a simple immediate manner (link with the school) and the health staff will have advanced tools available to support the processes for taking care of young patients. On December 12, the Smart Inclusion project was also inaugurated in the Padua Hospital. The project will be extended to another four hospitals by mid-2010.
- On September 23, 2009, Telecom Italia signed an agreement with Movincom, a consortium set up by various businesses in different categories (for example, transportation, parking, insurance and hotels) for the purpose of helping to develop payment services using a mobile handset. The agreement will make it possible for Telecom Italia's customers to purchase a wide range of goods and services offered by businesses belonging to the consortium using a cell phone. Starting in 2010, Telecom Italia will integrate a specific application on the new SIM cards so that purchases of all goods and services offered by Movincom businesses can be made using mobile phones.
- In October 2009, Telecom Italia won two bids to manage ICT infrastructure for the company Terna: The evolution of the intranet network infrastructure for Central and Peripheral Sites and the Supply of specialist equipment and services for the functioning of the Security Operational Center. This important achievement strengthens the relationship between the two companies which are national leaders in their respective markets of TLC and Energy.
- During 2009, partnership agreements were renewed with Confcommercio Imprese per l'Italia (about 800,000 members) and Confartigianato Imprese (about 500,000 members). The purpose of the agreements is to gain a better understanding of the needs of member companies, support their activities and introduce technological innovations which simplify the way of doing business. Confcommercio Solutions and Confartigianato Solutions for the Simplified Business are the fruits of these agreements and consist of fixed-line, mobile and ICT services and products bundled according to the specific needs of the member businesses.

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

	As of and for the years ended		
	December 31,		
	2009	2008	2007
<b>DOMESTIC FIXED</b>			
Fixed-line network connections in Italy at period-end (thousands)	18,525	20,031	22,124
Physical accesses (Consumer + Business) at period-end (thousands)	16,097	17,352	19,221
Voice pricing plans (thousands)	5,417	5,834	6,375
BroadBand accesses in Italy at period-end (thousands)	8,741	8,134	7,590
<i>Of which retail BroadBand accesses (thousands)</i>	<i>7,000</i>	<i>6,754</i>	<i>6,427</i>
Virgilio page views daily average during the year (millions)	44.7	44.8	40.4
Virgilio daily average single visitors (millions)	3.2	2.5	2.1
<b>Fixed network infrastructure in Italy:</b>			
· access network in copper (millions of km pair)	110.5	109.3	106.8
· access and carrier network in optical fiber (millions of km of fiber)	4.1	3.9	3.8
<b>Fixed network infrastructure abroad:</b>			
· European backbone (km of fiber)	55,000	55,000	55,000
· Mediterranean (km of submarine cable)	7,000	7,000	7,000
· South America (km of fiber)	30,000	30,000	30,000
<b>Total traffic:</b>			
Minutes of traffic on fixed-line network (billions):	134.4	144.3	156.8
· <i>Domestic traffic</i>	<i>115.6</i>	<i>125.3</i>	<i>140.1</i>
· <i>International traffic</i>	<i>18.8</i>	<i>19.0</i>	<i>16.7</i>
<b>DOMESTIC MOBILE</b>			
Number of lines at year-end (thousands)	30,856	34,797	36,331
<i>Of which Prepaid lines (thousands)(1)</i>	<i>24,398</i>	<i>28,660</i>	<i>30,834</i>
Change in lines (%)	(11.3)	(4.2)	12.0
Churn rate(2)	30.1	23.6	16.4
Total outgoing traffic per month (millions of minutes)	2,982	3,054	2,766
Total outgoing and incoming traffic per month (millions of minutes)	4,260	4,316	4,052
Average monthly revenues per line(3)	20.0	20.0	22.2

(1) Excludes not-human Subscriber Identity Modules (SIM).

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

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

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

At December 31, 2009 the Telecom Italia Group was one of the world's largest fixed telecommunications operators with approximately 16.1 million physical accesses (consumer and business) in Italy, a decrease of 1.3 million compared to December 31, 2008. The Wholesale customer portfolio reached approximately 6.2 million accesses for telephone services at December 31, 2009, an increase of approximately 1.2 million compared to December 31, 2008. The overall access market was stable compared to December 2008.

Furthermore, the BroadBand portfolio in Italy reached 8.7 million accesses at December 31, 2009 (consisting of 7.0 million retail accesses and 1.7 million wholesale accesses), an increase of 0.6 million accesses compared to December 31, 2008.

In addition, the Telecom Italia Group had approximately 30.8 million mobile telephone lines at December 31, 2009 (34.8 million at December 31, 2008); the reduction compared to December 31, 2008 can be attributed to

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greater selectivity in the sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory events which occurred in 2009 that may have an economic impact on Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **COMPETITION**

*The market*

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

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

In particular:

- in Media, the scenario continues to be dominated by the vertically integrated players but with the Web having a growing importance as a complementary distribution platform and therefore with a possible role for the Telcos;
- in Information Technology (where Italy has a level of investment relative to its GDP which is significantly lower than that of the United States or of other European countries), a strengthening of the Telco operators is expected also through partnerships and acquisitions;
- in the Consumer Electronics market, the cell phones with greater functionality (such as the iPhone) distance the relationship between the customer and telecommunications operators, and other terminals, such as the games console, compete with the Telcos for the role of net enabler on the living room screen;

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

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

### ***Competition in Fixed Telecommunications***

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

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In 2009, there has been a continuation of the migration of customers from fixed telephony to mobile telephony services and to alternative communications solutions (messaging, e-mail, chat etc.). For some years, for both private consumers and small and medium businesses there has been a progressive substitution of the mature traditional voice services with content and value-added services based on the Internet Protocol (IP), the spread of which is favored both by the use of Internet and by changes in customer preferences and by the penetration of broadband and the PC, as well as by the quality of the service.

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

- Wind-Infostrada, an integrated fixed-mobile operator focused on the retail mass market segment;
- Fastweb, an operator focused on the positioning as technological leader offering broadband double and triple play packages with high value-added to retail and corporate customers, also offering mobile telephony services as an MVNO with H3G;
- Tiscali, an operator focused on broadband services with dual play packages *semplici e convenienti*, also has a mobile telephony offering as the MVNO *Tiscali Mobile* with Tim;
- TeleTu (formerly Tele2, purchased by Vodafone), positioned as price leader with entry-level plans for voice and broadband;
- Vodafone, focused on the 2Play package (Vodafone Station) and on fixed-mobile cross-selling activities;
- BT Italia, focused on business customers and ICT packages, also offering mobile telephony services as an MVNO with Vodafone.

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

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

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

*Competition in Mobile Telecommunications*

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

Alongside the progressive contraction of traditional voice and messaging services there is, however, significant growth in data and value-added services.

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

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

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

- competitive and regulatory pressure on retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telephony products and services (for example, mobile broadband);
- the success/attractiveness of these new technologies.

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

- Vodafone, strategy/perception as an innovative operator, attentive to the customer and strongly focused on the youth cluster;
- Wind, focus on cost conscious segment with a portfolio of simple plans with immediate benefits for the customer;
- H3G, operator focused on advanced value-added services (VAS) with competitive pricing (for example micro browsing, mobile broadband and mobile content).

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

#### **4.2.2 BRAZIL**

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



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On December 30, 2009, Tim Participações finalized the acquisition of Intelig from JVCO Participações (a subsidiary of the Docas group). Intelig is the domestic and international Brazilian telecommunications operator for long-distance and data transmission services. From an industrial standpoint, the acquisition is important because it will strengthen and complete the existing offering and optimize resources due to the synergies generated by the integration of the two networks. Intelig, in fact, possesses an important fiber optic network (about 15,000 kilometers) found in major Brazilian cities and has its own extensive carrier network (backbone).

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

**v KEY FACTORS**

The Tim Brasil group covers an area containing over 169 million of Brazilians 191.5 million inhabitants. Mobile operating subsidiaries have approximately 41.1 million customers located in each of the Brazilian states and in the Federal District. On December 31, 2009, its combined penetration reached approximately 90.2% of the Brazilian population and our combined market share totaled approximately 23.6%.

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

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

	As of and for the years ended December 31,		
	2009	2008	2007
Number of lines at year-end (thousands)	41,102	36,402	31,254

**v COMMERCIAL DEVELOPMENTS**

In 2009, the Tim Brasil group relaunched its positioning and its sales strategy, which was directed to:

- brand strategy and positioning: the company has designed a communication format centered on three pivotal points: network coverage and quality, attractive rate packages and improved handset portfolios;
- prepaid segment: Tim Brasil improved the attractiveness of the Infinity plan, extending the pay per call concept to long-distance calls and the community concept which counts more than 41 million customers in all the Brazilian states. The Infinity plan offers continuity to the growth of MOU (minutes of use) on a client base that represents more than 50% of the global prepaid base (17 million). Also with the aim of encouraging the use of the service, a prepaid refill incentive has been launched called recarga imperdivel Tim. In order to achieve greater penetration of TIM plans in the competitive environment of certain key markets, TIM launched some special packages under the Infinity plan such as in Rio de Janeiro where the price per minute has been reduced to 0.25 Brazilian reais until the end of 2016;
- business segment: the advertising campaign was created to publicize Tim Empresa Simples (Tim Simple Business), a converging plan in which mobile, fixed and broadband services are included in a single invoice. In September 2009, Liberty Empresas was launched following the use of the community concept, with a monthly charge that gives the right to unlimited traffic (on net local and long-distance

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calls) and national roaming at no additional charge;

- Tim-Chip: beginning July 2009, the clientele was offered the possibility of buying a new cell phone at a higher price, receiving a discount on traffic. The strategy, which shifts the customer's attention from the usual handset subsidy to services, offers the client more options and flexibility. In the fourth quarter of 2009, about 50% of new postpaid customers were acquired in this manner;
- handset portfolio expansion with highly innovative features: products were launched such as Samsung Galaxy (the first cell phone with Android - Google's mobile software) and the iPhone 3G. Tim is the leader in iPhone sales in the Brazilian market;
- Data segment: Tim Brasil continues with incentives to promote data traffic use by its customers. In the fourth quarter of 2009, the most attractive package of the Brazilian market was launched in which 100 MB of data costs 9.90 Brazilian reais. In December 2009, the TIM Wi-Fi plan was launched for internet access in public hot spots based on various time frames: 24 hours, 7 days or unlimited access for a monthly subscriber fee of 23.90 Brazilian reais.

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

**Business Units**

v **MARKETING AND DISTRIBUTION**

Our services are marketed through the largest distribution network in Brazil with over 8,957 points of sale, of which approximately 60 are own stores. In addition, we have over 365,543 recharging points for prepaid service. We market our services through a network of stores, including general retail stores that sell our mobile telecommunications services and related goods on a non-exclusive basis, and dedicated outlets that sell our services and goods exclusively. We, however, intend to focus on sales through our exclusive stores and franchises as opposed to general retail stores where subsidies often generate losses. Sales of our products and services are offered by our sales personnel, as well as by authorized dealers. Customers with debit cards that use Banco 24Horas (ATMs), as well as customers using Visa, MasterCard or Diners credit cards are able to recharge their prepaid phones straight from their mobile handsets.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory developments which occurred in 2009 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **COMPETITION**

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

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

- **Credentialed MVNO** : a service provider which contributes to value creation and distribution of the services of the original mobile operator.
- **Authorized MVNO** : a telecommunications operator in the full sense (in terms of rights and obligations) which obtains authorization to provide services based on an agreement with an existing mobile operator for the shared use of infrastructure.

The public consultation process provided the submission to Anatel up until March 22, 2010 of any comments on the proposal, and the beginning of the project is expected by July 2010.

v **OTHER RELEVANT INFORMATION**

*Acquisition of Intelig Telecomunicações Ltda*

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

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

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

As a consequence, Tim Participações issued 127.3 million new shares (43.4 million ordinary shares and 83.9 million preferred shares) allocated to JVCO Participações and as of December 31, 2009 fully consolidated Intelig into its consolidated financial statements.

### **4.2.3 MEDIA**

In 2008, the Telecom Italia Media group changed its organizational structure to establish a focused and specific presence over La7 and MTV as a result of the increase in the number of channels and products available on

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several distribution platforms (Free to Air, Web, satellite and Mobile), as well as the different editorial content and programming of La7 and MTV. It was therefore decided to more visibly distinguish the attributions of responsibility between the two companies; consequently, beginning January 1, 2009, the manner of presenting the separate income statement results and financial position was revised so that three specific business segments have been identified as follows:

- **Telecom Italia Media S.p.A.:** activities relating to La7 and the Telecom Italia Group's Digital Content which develops and creates content for the IPTV, DVB-H and Web platforms;
- **MTV Group:** activities relating to MTV broadcasting, the Playmaker production unit, the musical platforms via satellite, the Nickelodeon and Comedy Central satellite channels, MTV Mobile and multimedia (Web);
- **Network operator (TIMB Telecom Italia Media Broadcasting):** assets for the management of the Group's analog and digital networks and hosting service on digital multiplexes.

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

As of December 31, 2009, the Business Unit was organized as follows:

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

	As of and for the years ended		
	2009	December 31, 2008	2007
<b>Media</b>			
La 7 audience share Free to Air (analog mode) (average during the period, in %)	3.0	3.1	3.0
La 7 audience share Free to Air (analog mode) (average of the last month of the period, in %)	2.9	3.0	3.1

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory events which occurred in 2009 that may have an economic impact on Media Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

**4.2.4 OLIVETTI**

The Olivetti group mainly offers products and services relating to digital printing systems and ink-jet office products, specialized applications for the banking field and commerce and information systems managing forecast games, electronic voting and e-government. The group also develops and manufactures products using silicon technology (ink-jet print heads and Micro Electro-Mechanical Systems (MEMS) and industrial applications) and is

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

### **Business Units**

also present in the field of document services (digital management of company documents), caring services (specialist help-desk) and technical assistance. Starting from the second half of 2009, activities were undertaken to expand and diversify the offerings of the Information Technology sector by concentrating on the development of software solutions and applications services for businesses and public administrations and also qualifying devices.

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

As of December 31, 2009, the Olivetti Business Unit was organized as follows (the main companies are indicated):

(\*) Liquidated on January 28, 2010.

#### **4.2.5 INTERNATIONAL INVESTMENTS**

##### **v BBNed Group**

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

BBNed offers a complete portfolio of high-quality, reliable DSL broadband services to Internet Service Providers, Applications Service Providers, retail business customers and other telecommunications companies in The Netherlands. BBNed provides wholesale broadband access to third parties via its proprietary unbundled DSL network. In 2007, in order to expand its business portfolio, BBNed entered the retail residential Broadband access market (ADSL and fiber) through the acquisition of the InterNLnet operator completed in July 2007. Furthermore, in August 2007, BBNed launched nationwide its retail Alice ADSL dual play offering, bringing Dutch customers connections with speeds up to 20 Mbit/s. As of 31 December 2009, there were 45 thousand Alice customers.

During 2009, the Dutch DSL market featured a steady recourse to promotions, with the development, albeit limited, of the penetration of fiber accesses.

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



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

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

### v **OTHER INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

- **TELECOM ARGENTINA GROUP**

Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora hold a 13.97% stake in the Telecom Argentina group.

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

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

With respect to BroadBand, accesses totaled approximately 1,214,000, growing about 18% compared to the end of 2008 (1,032,000).

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

For details about the current status of legal and regulatory proceedings relating to Telecom Argentina please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein and Item 8. Financial Information. 8.2 Legal Proceedings which updated certain proceedings disclosed in the Consolidated Financial Statements.

**ETECSA**

Through Telecom Italia International we hold a 27% interest in ETECSA, the monopoly provider of fixed-line and mobile telecommunications services, Internet and data transmission in Cuba.

Old Telecom Italia obtained an initial stake of 12.25% in ETECSA in 1995, when, prior to its privatization by the Italian government, Old Telecom Italia acquired, for approximately U.S.\$291 million, a 25% stake in a Mexican telecommunications company which owned 49% of ETECSA. In February 1997, Old Telecom Italia converted its indirect stake in ETECSA into a direct investment and increased its interest to 29.29%. The acquisition price for such further 17.04% stake in ETECSA was U.S.\$291.6 million. In connection with the merger of the local mobile operators into ETECSA to form an integrated provider of telecommunications services we participated in a series of capital increases proportionate to our share ownership.

These capital increases occurred during 2003 and through 2004; during this period we invested an additional U.S.\$41.3 million in ETECSA through capitalization of dividends paid by ETECSA and, following these capital increases and the mergers, we now own 27%. The other shareholders in the company include the Cuban government which controls 51% of the company and four other Cuban shareholders.

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In addition to our shareholding in ETECSA Telecom Italia International is a party to a shareholders' agreement pursuant to which it has the right to designate certain senior executive officers and a majority of the board of directors of ETECSA on alternate years.

In addition to these governance arrangements, we entered into agreements to provide certain technical assistance to ETECSA with respect to its fixed line and wireless services.

In return for these services we received annual fees of 692,000 euros (for fixed line technical assistance) and 996,562 euros (for mobile technical assistance) under each agreement respectively and certain other fees for specific services provided equal to 1,385,000 euros. The level of the fees earned over the last two years is set forth in Note Related Party Transactions of the Notes to our 2009 Consolidated Financial Statements included elsewhere herein. The technical agreement with respect to fixed line services, expired at the end of 2009, has been renewed for the period 2010-2011 and the technical agreement with respect to wireless services will expire at the end of 2011.

As we own only 27% of ETECSA we account for its results under the equity method. For further details see Note Other Non-Current Assets of the Notes to our 2009 Consolidated Financial Statements included elsewhere herein.

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

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In the mobile business, the customer base exceeds 621,100 users at December 31, 2009, an increase of more than 87% compared to December 31, 2008 (331,700 units). The number of customers with postpaid contracts constitutes almost 95% of customers base and is equal to 589,600 (303,600 at December 31, 2008). The performance for the year benefits from the considerable reduction in activation charges which occurred on December 11, 2008 and May 18, 2009.

We do not believe that our arrangements with, and investments in, Cuba are material to the results of operations or financial condition of the Telecom Italia Group, taken as a whole.

**4.2.6 COMPETITION**

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

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

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Business undertaken by Telecom Italia in the European Union is subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and opinions. As such, as a member of the EU, Italy is required to implement directives issued by the EU, which directives may take effect automatically on a member state. Regulations adopted at the EU level also have general application and are binding and directly applicable on EU member states. Recommendations, on the other hand, are not legally binding although politically important.

The European Commission began opening the telecommunications market to competition with the adoption of directives in the late 1980s and early 1990s. These liberalization measures culminated in Italy, as well as in all the main member States of the EU, with the opening of competition in 1998 of public voice telephony and public network infrastructure.

The 1998 framework was reviewed when growing convergence between telecoms, broadcasting and information technology meant the rules had to be adapted. A new EU Regulatory Framework was adopted in 2002, covering all forms of fixed and wireless telecoms, data transmission and broadcasting and made up of a package of legal instruments, the most relevant of which are five Directives concerning the following topics: the common regulatory framework; access and interconnection; the authorization regime; the universal service and users' rights; privacy and data protection.

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

The EU regulatory framework requires that market analyses be carried out by the National Regulatory Authorities (**NRAs**, in Italy **AGCom**) before regulation is imposed and that appropriate obligations are imposed on individual operators determined as having significant market power (**SMP**) according to specific EU guidelines. A company is deemed to have **SMP** if, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers. One of the criteria adopted to identify **SMP**, according to the EU Guidelines, is the operator's market share exceeding 50%.

The market analyses carried out by NRAs are subject to the scrutiny of the EU Commission which, to a certain extent, can challenge the NRAs findings, having a veto power about market definition and identification of **SMP** operators but not about the choice of remedies.

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The EU legal framework has been recently updated. In November 2007, the Commission adopted review proposals of the five directives defining the regulatory principles for the sector (i.e. the Framework, Access, Authorisation, Universal Service and E-Privacy directives), with the aim to define the new European regulatory framework for the upcoming years.

New EU telecoms rules have officially become EU law following their publication in the Official Journal of the European Union of December 18, 2009. The Reform Package is composed of the Better Regulation Directive (Directive 2009/140/EC, amending the Framework, Access and Authorization directives) and the Citizens Rights Directive (Directive 2009/136/EC amending the Universal Service and E-Privacy directives and the Regulation 2006/2004 on Consumer Protection Cooperation) that will need to be transposed into national laws of the 27 EU Member States by May, 25 2011 and by the Regulation which is directly applicable establishing the new European Telecoms Authority called Body of European Regulators for Electronic Communications (**BEREC**) .

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**Telecommunication Regulatory Framework in Italy**

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

- Law 36 of February 22, 2001, regarding protection from exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which established Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated at frequencies between 100 kHz and 300 GHz ;
- the Electronic Communications Code ( **ECC** ), Legislative Decree 259 of August 1, 2003, which incorporated into national law the EU directives of the 99 Review with regard to electronic communications networks and services (the EU directives on Access , Authorization , Framework and Universal Service );
- Data Protection Code (Legislative Decree No. 196/2003), modified by Law 166 of November 20, 2009;
- the Consolidation Act on Radio-Television (Legislative Decree 177 of July 31, 2005) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;
- Legislative Decree 206 of September 6, 2005 ( **Consumer Code** );
- Legislative Decree 262 of October 3, 2006, which contains Urgent measures with regard to tax and financial matters and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offenses, a generalized increase in the fines for each sanction and the elimination of the institution of the partial cash settlements of fines;
- Decree Law 7 of January 31, 2007, (converted into law, with modifications, by Article 1 of Law 40, dated April 2, 2007) containing urgent measures for the protection of consumers, promotion of competition, development of economic activities which, for the electronic communications sector, abolished top-up charges and prohibited the expiry of phone traffic on prepaid phone cards;
- Legislative Decree 109 of May 30, 2008, for the incorporation into national law of the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/EC;
- Law 69 of June 18, 2009, containing in Article 1 BroadBand measures for the administrative simplification of the procedures for the installation and development of optical fiber networks.

Furthermore, the ECC confirmed the responsibilities attributed under previous legislation to the Ministry of Communications and AGCom:

- the Ministry is responsible for State functions and services in respect of postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. The functions of

the Ministry of Communications and its resources have been transferred to the Ministry of Economic Development since May 2008 (Decree Law 85 May 16, 2008);

AGCom, established by Law 249 of July 31, 1997, is an independent regulatory authority and guarantor. It must report on its operations to Parliament, which established its powers, defined its by-laws and elected its members. AGCom has the dual responsibility of ensuring that there is fair competition among the operators on the market and protecting consumers.

#### **4.3.1 TELECOMMUNICATION REGULATION IN ITALY**

##### ***Telecom Italia Undertakings***

In July 2008, Telecom Italia proposed to AGCom certain undertakings relating to its access network ( **Undertakings** ) that would integrate and strengthen the existing obligations of non-discrimination between Telecom Italia Retail and other operators in the provision of wholesale access network services imposed on Telecom Italia by AGCom since 2002.

With the Decision n. 718/08/CONS AGCom approved Telecom Italia Undertakings which are divided into fourteen main groups.



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Overall, the Undertakings pursue four main goals:

- to offer additional guarantees of equal treatment between Telecom Italia's commercial functions and other electronic communications operators that purchase wholesale access services from Telecom Italia ( **Operators** );
- to provide benefits to Operators and final users, through the qualitative development and improvement of the fixed access network and of related services;
- to make the evolution of Telecom Italia's fixed access network more transparent for the Operators;
- to ensure the maintaining of competitive conditions in the migration towards new generation networks.

Following the AGCom approval of the Undertakings, a number of sanction proceedings imposed on Telecom Italia were suspended and should be closed when the actual fulfillment of the Undertakings is assessed.

At the beginning of 2008 Telecom Italia created the Open Access department, a separate business unit focusing its activities on the Undertakings implementation. In order to ensure internal-external equal treatment its adopted actions have focused on three main areas of intervention:

- technical-organizational: solutions for the improvement of internal processes for delivery and assurance of SMP services have been adopted;
- cultural-behavioral: a Code of Conduct has been defined and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment;
- economic-regulatory: the drafting of service contracts and transfer charge for the implementation of the economical treatment equality is underway.

The Undertakings implementation, their complexity and their impact on the stakeholders system, has required the creation of a governance system where each body has a specific role.

In particular, the following bodies have been created: an independent body (the Supervisory Board) and the Undertakings Monitoring Group for the monitoring of the working progress (Office of Telecommunications Adjudicator Italia - **OTA Italia** ), whose mission is to prevent and resolve disputes between operators and the Next Generation Network Committee submitting proposed solutions on technical, organizational and economic issues for the transition to NGN networks.

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As planned, Telecom Italia has fully implemented, as of March 31, 2010, technical Undertakings concerning the new delivery process for SMP services, additional procedures for the management of co-location services, new procedures for the management of wholesale users and a performance monitoring system for SMP services.

Positive judgment on the implementation by Telecom Italia of the Undertakings to date has been expressed by the Supervisory Broad in its first Annual Report.

### *Market analysis*

During 2006 and 2007, AGCom concluded the first round of analyses of the markets of the electronic communications sector, as identified by the EC 2003 Recommendation, and designated Telecom Italia as SMP in the mobile voice call termination market and in all fixed markets. As result of these findings AGCom introduced regulatory measures depending on the specific market failure identified: access to network, carrier selection and pre-selection, transparency and non discrimination, including publication of Reference Offer, information for end users, advance notification to AGCom of new tariffs or change of existing ones, price control including cost orientation, price/network cap and price tests, cost accounting and accounting separation.

Since December 2007, AGCom has opened various proceedings to carry out the second round of relevant markets analyses to determine whether to maintain, amend or withdraw the obligations on Telecom Italia in force. Also, markets, not included in the revised Recommendation, with remedies in place, have been re-assessed in order to justify either the withdrawal or the keeping of regulation. Therefore AGCom reviewed more than 7 markets in its second round market analyses. During 2008, AGCom concluded the market analyses of the wholesale mobile

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markets (call termination, and access and call origination, while, as to international roaming the EU Regulation is applied and AGCom has not reviewed this market). The market analyses proceedings, for the fixed markets, suspended until the AGCom approval of Telecom Italia's Undertakings, are almost completed and they should be concluded by 2010.

The major developments in 2009 regarding markets in the electronic communications sector are described below.

***Retail fixed markets***

As a result of the first round of fixed retail market analysis concluded in 2006, AGCom imposed on Telecom Italia as SMP operator, regulatory obligations, including a Price Cap mechanism and price control.

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

At the end of 2009, AGCom concluded the second round analyses of the international calls market and of the minimum set leased lines market and issued decisions to deregulate both such retail markets withdrawing all ex ante obligations for Telecom Italia from 2010.

During 2009, AGCom also concluded the second round analyses of the retail and wholesale access markets, where it found lack of competition and designated Telecom Italia as SMP. In December 2009, the AGCom issued decision 731/09/CONS setting out the remedies to be imposed on Telecom Italia, including the Telecom Italia Undertakings.

As to the retail access market, the AGCom reduced regulatory constraints removing, from 2010, the price cap mechanism used for controlling residential and business subscriber monthly fees, which are now subject only to a price test (currently under review) to ensure replicability by an efficient OLO. At the same time, AGCom maintained the obligation to notify prices and conditions 30 days in advance of the commercial launch (instead of the previous 60 days), but a clause of tacit consent at the end of the notice period has been introduced. As for bundling services, the previous prohibition has been withdrawn as a consequence of the diffusion of the Telecom Italia's WLR offer.

AGCom carried over Telecom Italia's obligation to provide WLR service, only in the areas where disaggregated access services are not offered, with a price calculated according to the Network Cap method, for the period 2010-2012, based on a BU-LRIC model, instead of the previous retail-minus regime.

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With reference to the retail national calls markets, with Decision 95/10/CONS, of March 25, 2010, published in the Official Journal of April 9, 2010, AGCom has launched a public consultation on the analysis of the local, national and fixed-mobile telephony services markets for residential and business subscribers. The draft decision under consultation notified also to the EU Commission provides for the withdrawal of the regulatory obligations imposed on Telecom Italia in the previous round of market analysis (such as price cap). The removal of some of the obligations currently in force will be effective after six months from the publication of the final decision (transitory period). AGCom proposes also to introduce ex-post replicability tests to assess the Telecom Italia's offers. The methodologies to implement the replicability tests are under review within a specific proceeding and a public consultation on that issue closed in mid February 2010 (Decision 667/09/CONS).

Beginning February 1, 2009, Telecom Italia raised the monthly subscriber charge for its residential clients from 12.14 euro to 13.40 euro. This increase was authorized by AGCom with Decision 719/08/CONS published in the Official Journal of January, 7, 2009.

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Following AGCom's approval of the increase in the residential subscriber charge, the price of the WLR subscriber charge of the POTS line was also increased on February 1, 2009 from 10.68 euro/month to 11.79 euro/month (excluding VAT).

***Wholesale fixed markets***

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

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

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

With reference to the Unbundled access, in March 2009 AGCom approved the price for LLU services for the year 2009 on the basis of cost orientation, as the network cap expired at the end of 2007, starting from January 1, 2009. The 2009 LLU Reference Offer increases the monthly fee to 8.49 Euro/month with an increase of 0.85 Euro/month compared to 2008.

With reference to BroadBand access, in November 2009 AGCom approved the 2009 Reference Offer for bitstream services with a price decrease as of January 1, 2009 of the ADSL access fee (from 8.5 euro/month for the year 2008 to 8.0 euro/month for the year 2009), of the backhaul bandwidth fee (average of 9% for ATM and 44% for Ethernet) and of *una tantum* contributions. The prices of the symmetric accesses for the year 2009 remained unchanged in respect to the year 2008.

Following the conclusion of the second round of market analyses of the wholesale Access market, in December 2009, with the Decision 731/09/CONS, AGCom confirmed the current regulatory system relative to the wholesale access obligations to the copper infrastructure (unbundling and bitstream), whereas, with regard to the determination of prices, it reintroduced for the period 2010-2012 a network cap mechanism, based on a BU-LRIC model, currently under consultation with the Decision 121/10/CONS (see below). Furthermore, AGCom introduced some obligations for the access to NGN infrastructures and, in particular, introduced the access obligation to ducts and dark fiber at fair and reasonable prices under AGCom supervision and the bitstream access on FTTX (implementation conditions to be defined after the publication of the EC Recommendation on NGN and Guidelines by the NGN Italian Committee). Measures related to the next generation network should be adopted in 2010.

On April 27, 2010, with the Decision 121/10/CONS, AGCom launched a public consultation on the definition of a new cost model for the determination of the tariffs to be applied for the period May 1, 2010 – December, 31 2012 to the following wholesale services: unbundling,

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bitstream and WLR and on the calculation of the Weighted Average Cost of Capital (WACC) value for the same period. The proposed values have been derived from the new BU-LRIC cost model and, in particular, for ULL service, the AGCom has proposed the following monthly fees: 8.70 euro/month as of May 1, 2010; 9.26 euro/month as of January 1, 2011; 9.67 euro/month as of January 1, 2012. Those values, under consultation, are however subject to the final verification by AGCom of the compliance of two conditions: the quality improvement of Telecom Italia's copper network and the upgrading of the access network in the prospect of new generation networks. As far as the WACC to be applied to the Telecom Italia wholesale fixed line services, the proposed value is 9.36 %.

With respect to migration between operators, AGCom has revised fixed-line customer migration rules, substantially reducing migration times (which should not take more than ten working days, as of November 2009, to be further reduced to five days as of March 2010, in particular with reference to the so called Phase 2 of the process where the donating operator verifies the recipient's migration request). Moreover, in cases of unrequested migration, the user will have the right to re-establish, free of charge, the previous configuration

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within five working days. Finally, in order to prevent activation of services not requested by retail customers, fixed-line operators must introduce by March 1, 2010 an individual security code. The code must be provided to the customer when the client signs the contract for the access service.

With reference to call termination, in May 2008, AGCom adopted a Decision setting a new cost accounting model and a gradual drop from 2007 to 2010 of the termination rates for alternative network operators which should lead to symmetric termination rates with Telecom Italia by July 2010 (at the maximum level of 0.057, for SGT). In July 2008, AGCom designated additional network operators as having SMP in the wholesale market for fixed call termination, imposing on the bigger infrastructure-based alternative operators access and non discrimination and price control obligations.

With respect to Telecom Italia, wholesale tariffs for call origination, termination and transit, the network cap mechanism, imposed following the first round of market analyses on Telecom Italia, expired at the end of 2009. AGCom has concluded the second round market analyses for all those markets and in particular for origination and termination services in the fixed network with Decision 179/10/CONS of April 28, 2010, has introduced a BU-LRIC model, as required by the Commission Recommendation, for the definition of termination prices for the year 2012. In the same Decision, AGCom has also provided the new wholesale tariffs for the year 2010, and for the year 2011 the prices will be defined at an efficient cost level on the basis of 2007 cost accounting data. All the prices provided for call origination are equal to the ones for call termination. AGCom also confirmed its previous decision no. 251/08/CONS to impose symmetric call termination rates between Telecom Italia and infrastructured alternative operators, as of July 1, 2010, at Telecom Italia's SGT price level.

With respect to transit services, with Decision 180/10/CONS of April 28, 2010, AGCom has identified the two following markets: 1. Local conveyance and Transit market (it includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service) and 2. National conveyance and Transit market (it includes transit services between two or more switches located in different telephone districts, also when provided jointly with the originating or terminating service). While a withdrawal of the existing obligations has been provided for the national conveyance and transit service market, for the local conveyance and transit market AGCom has maintained the regulation.

With reference to the wholesale markets for trunk segments of leased lines and for terminating segments of leased lines, AGCom, with Decision 2/10/CONS of January 2010, found the market for trunk services competitive and decided to remove all the ex ante obligations. As to the terminating services market, AGCom defined the following two separate markets: A) Circuits provided between a Telecom Italia node and end user's premises; B) Circuits provided between a Telecom Italia node and a mobile operator's base station and decided to deregulate such market B, removing existing ex ante obligations from December 31, 2010. AGCom decided instead to maintain SMP regulation for Telecom Italia in the wholesale market for terminating segments of leased lines between a Telecom Italia node and the end user's premises (market A) keeping in place regulation under a network cap for the years 2010-2012. The starting values are the prices of Telecom Italia Reference Offers for the year 2009, approved by AGCom (published on February 11, 2010).

***Mobile markets***

AGCom has concluded the second round of analyses of the mobile markets.

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With reference to the wholesale market for access and call origination on mobile networks, AGCom confirmed, in February 2009, that the analyzed market does not warrant ex ante regulation.

With reference to the wholesale market for voice call termination on mobile networks, AGCom adopted a Decision (n. 667/08/CONS) in November 2008, which provides a four year gradual decline of tariffs setting the Maximum Termination Rate (**MTR**) for each SMP Mobile Network Operator and will eliminate the current asymmetry with the third entrant in 2011 (5.3 cent/min) and with the last entrant in 2012 (4.5 cent/min). In the same Decision, AGCom also stated that it would develop, in 2009, and submit to public consultation a new cost model for MTRs, taking into account the EU Recommendation on the regulation of termination rates (approved in May 2009). After the new cost model is ready, AGCom could revise, with a new market analyses, the MTRs set by the above mentioned decision. It is currently provided that such changes would not be retroactive. Procedure for a BU-LRIC model development for MTR has been launched and should end in early 2011.



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As of July 1, 2009, Telecom Italia reduced its termination rates in compliance with the above mentioned Decision which set, for the first year of the glide path, a termination charge of 7,70 eurocents/min. for Telecom Italia and Vodafone, 8,70 eurocents/min. for the third player Wind and 11,0 eurocents/min. for the latest entrant H3G.

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

### **International roaming**

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

- an average wholesale price cap for outgoing calls;
- a price cap for maximum retail prices for outgoing and incoming calls ( **Euro-tariff** ).

In June 2009, the EU Parliament and Council adopted a new Regulation (n. 544/2009) modifying the previous one. It provides for further progressive reduction of prices for voice call (retail and wholesale) and sets maximum prices also for SMS (at retail and wholesale level) and data (at wholesale level), to be applied within the 27 Member States as of July 2009. The new Regulation has also provided for stricter transparency obligations on data (retail) such as the introduction of a cut off limit, from March 2010, in order to prevent the bill shock . By March 1, 2010, customers need to make a deliberate choice in order to benefit from a cut-off limit (opt-in phase, implemented by Telecom Italia as of March 1, 2010). From July 2010, customers will have the cut-off limit by default.

The new rules will apply until the summer 2012. The EU Commission will review the regulation by June 2011.

### ***Mobile messaging and data services***

AGCom and the Competition Authority concluded, in May 2009, a joint investigation on SMS, MMS and mobile data without providing any regulatory intervention but inviting the operators to set retail and wholesale prices consistently with the maximum prices set by the EU roaming Regulation and pointing out the need for more transparency. Following the investigations by the Authorities and by the Government, mobile operators committed to voluntarily agree to a retail price cap for SMS at the level of the International roaming EU Regulation (13,0 cent/SMS, VAT included). In particular, Telecom Italia has offered to its customer base, since early 2010, a new tariff plan with SMS prices in line with international roaming and a voice per second billing without call set up.

In the Official Journal of March 2, 2010, Decision 696/09/CONS has been published launching a Public consultation on a draft decision concerning the harmonization measures with the principles of the EU Regulation on International Roaming and the consumers' protection. AGCom, taking note of the commitments offered by operators as to the SMS tariffs, proposes a draft decision aimed at extending the measures introduced by the EU Roaming Regulation also at national level, with particular reference to the cut-off safeguard thresholds.

*Mobile Number Portability and Pre-paid residual credit*

In November 2009, the measure introduced by AGCom with Decision 78/08/CIR published in December 2008, became effective which sets the new rules for Mobile Number Portability (MNP). AGCom cancelled the inter-operator charge, simplified the procedures and reduced the inter-operator time for porting the number from five to three working days. AGCom's decision also forbids customers from cancelling MNP orders. In August 2009, the obligation of allowing the transfer of residual credit in case of mobile number portability became effective.

*Spectrum issues*

In October 2008, AGCom issued a Decision dealing with the procedure for the re-assignment and extension of the use of 900 MHz (the so-called refarming, *i.e.* the possibility that the 900 and 1800 MHz frequency band can be re-organized and re-used for the development of 3G mobile systems 3G/IMT 2000-UMTS or of other possible

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technologies, equivalent and compatible according to the relevant applicable regulation) and the re-assignment of the 3 blocks of 2x5 MHz in the 2100 MHz band, returned to the Ministry by an UMTS operator who never entered the market (IPSE 2000). In particular:

- **900 MHz frequency band.** The existing GSM operators can obtain the assignment of a whole number of adjacent nationwide blocks of 5 MHz up to a maximum of 25 MHz for the 900 MHz and 1800 MHz band, with no more than 10 in the 900 MHz band.
- In February 2009, the Ministry approved the plan submitted by Telecom Italia, Vodafone and Wind for the re-assignment of the 900 MHz band. The plan foresees two phases. The first phase which ended on November 2009, related to the re-organization of the 900 MHz band. The second phase to run between September 2011 and December 2013 will concern the release of one 5 MHz block to be assigned to the 3G only mobile operators. This block should be used for 3G technologies with the introduction of roaming obligations.

After the approval, in July 2009, of the EC directive repealing the GSM Directive of 1987- published in the EU Official Journal on October 16, 2009, the authorization for refarming will be granted by the Ministry, following AGCom's advice, to the existing GSM operators, on request, if they are ready to activate an UMTS carrier in the GSM 900 MHz band on a part of the national territory including at least 20% of the population.

- **2100 MHz frequency band.** In June 2009, 3 blocks of 2x5 MHz were assigned, through a competitive selection procedure, for the offer of 3G services. Telecom Italia, Vodafone and Wind presented offers for 1 block each starting from the minimum value. Therefore there was no auction and the 3 blocks were assigned to the aforementioned operators. In particular, Telecom Italia paid 88,782,000.00 euros, Vodafone 90,210,000.00 euros and Wind 88,781,500.00 euros. The right of use has been granted to Telecom Italia by the Ministry for Economic Development on September 8, 2009.

***New numbering plan***

In July 2008, AGCom issued a Decision concerning the review of the national numbering plan for telecommunication sector. Main modifications concern new rules of network internal services numbering, introducing specific blocks for premium services mainly related to SMS/MMS data services, the introduction of new premium services numbering and of clearer numbering-premium services categories association, the revision of price thresholds of premium services and the updating of nomadic voice communication services, fixed-mobile convergent services and mobile virtual network operators numbering. In addition, the pan-European new social services numbering (i.e. 116XYZ codes) has been introduced.

With Decision 2/10/CIR, published on March 8, 2010, AGCom launched a public consultation (concluded on April 7, 2010) on its proposal to amend the National Numbering Plan. The most important issue concerns the possibility to assign rights of use of numbers to mobile virtual operators.

***Measures on the transparency of telephone bills, selective call blocking and user safeguards***

Between 2007 and 2008, with different Decisions, AGCom introduced new rules for the protection of users. In particular:

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN). In addition from October 1, 2008, operators have been obliged to make, automatically, the permanent disconnection of all client lines who had not expressly opted for a different alternative;
- a second ad hoc bill, provided on request, for charges relating to calls made to numbers offering premium rate services or, in alternative, an exposure in invoice of a specific box;
- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, etc.);
- a free service, available on request, which alerts customers if they exceed a pre-determined expenditure threshold.

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#### ***Quality of services of Internet access at fixed location***

In November 2008, AGCom issued a Decision stating that operators have to provide information about the service level of Internet access services at fixed location:

- the operators must declare the minimum speed of their BroadBand connection services and other information about the characteristics. The subscribers can rescind their contract if the speed of their BroadBand connection is less than the speed declared;
- since February 2010, operators must make statistical measures at regional level (for example speed data transmission; rate of failure in data transmission; rate of packet loss). They will start the measures in four regions (Toscana, Veneto, Puglia and Sicilia) and then progressively the measures will be extended to other regions.

The Decision also introduces a super-parties agency that will verify the operator's measures. Furthermore the agency will introduce a tool with which customers can measure the quality of their BroadBand connection.

#### ***Universal Service***

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

The net cost of providing the Universal Service is calculated as the difference between the company's net cost when it is subject to the obligations of providing the Universal Service and the net cost of the same operation if the obligation did not exist. It is AGCom's responsibility to verify the net cost. A fund set up by the Ministry of Communications is used to finance the net cost. Companies in the sector contribute to it, including Telecom Italia.

In March 2008, AGCom published a decision introducing a new method of calculation. Retroactive since 2004, it affects credits related to the Universal Service net cost of the years 2004, 2005 and 2006 which has been consequently re-calculated and submitted to AGCom under the new terms. Telecom Italia has communicated universal service net cost for the years 2007, 2008 and 2009.

#### ***Public Telephony***

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In the Official Journal of April 2, 2010, Decision 31/10/CONS was published confirming that distribution criteria on the national territory of public telephones is no longer consistent with current social needs, AGCom removed any quantitative obligations for Telecom Italia. As a result, Telecom Italia after a communication to AGCom, local Administrations and interested citizens, will be authorized to remove up to 30,000 public telephones per year.

### *Accounting separation and fixed network cost accounting*

Operators having SMP are required to have an accounting system showing their costs in a transparent manner. Such operators must provide the AGCom annually with both descriptions and reporting of their cost accounting system to verify compliance with the provisions of the electronic telecommunications regulatory framework. Moreover, operators of fixed public networks and mobile networks and providers of fixed public voice telephony services, mobile telecommunications services and leased line services with SMP must keep a separate accounting system distinguishing between the activities related to the building and operation of public telecommunications network, the activities related to the provision of telecommunication services, the interconnection offering and the universal service provision.

The rules on Regulatory Accounting have been updated according to EC Recommendation of September 2005 on Cost Accounting and Accounting Separation, under the regulatory framework for electronic communications in order to comply with the new sector regulation, organized by relevant markets.

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During 2009, the independent auditor appointed by AGCom to review Telecom Italia's accounting separation of the fixed network services for the years 2005, 2006 and 2007, completed its audit and delivered the requested audit reports to the NRA. Telecom Italia has also produced and delivered to AGCom the Regulatory accounts for the year 2008.

Reports of the Auditor were published by AGCom on January 2010; shortly after, according to the law, the audited regulatory accounting reports and the methodology for the years 2005-2007 were also published on the Telecom Italia website.

Regulatory accounting for the year ending December 2009, according to the law, will be prepared and delivered to the National Regulatory Authority after the Company's annual reports approved in the Shareholders' meeting.

***Accounting separation and mobile network cost accounting***

In the context of the procedure of second round analyses of the market for the termination of voice calls on individual mobile networks, AGCom required SMP operators to produce economic and quantitative data related to regulatory accounting methodologies for the setting of new Network Cap values.

During the year 2009, in compliance with Decision 3/06/CONS (for the years 2006 and 2007) and with Decision 667/08/CONS (for the year 2008) and in order to provide evidence of the costs underlying mobile termination services:

- accounts at historical costs for the year 2006 were delivered in January 2009;
- accounts at current costs for the year 2006 were delivered in March 2009;
- accounts at historical costs for the year 2007 were delivered in June 2009;
- accounts at current costs for the year 2007 were delivered in June 2009;
- accounts at historical costs for the year 2008 were delivered in July 2009;
- accounts at current costs for the year 2008 were delivered in July 2009.

In relation to auditing activities by the independent auditor appointed by AGCom:

- the Regulatory Accounts of the mobile network for the year 2006 at historical costs and current costs have been reviewed and concluded;
- the Regulatory Accounts of the mobile network for the year 2007 at historical costs and current costs have been reviewed and concluded.

In November AGCom (with the support of Europe Economics) ended the implementation of Long Run Incremental Costs in order to check the value of the glide path fixed by Decision 667/08/CONS. Consultation of LRIC Model has not yet begun.

#### ***AGCom fee for 2009***

In November 2008, AGCom issued the Decision on the payment of the fee for the year 2009, (1.45 of 2007 revenues of the communications sector, to be paid by April 30, 2009). Telecom Italia paid an amount of 20,617,391.15 euros.

AGCom Decision n. 722/09/CONS on the payment of the fee for the year 2010, setting the calculation methodology (1.5 of the 2008 revenues of the communications sector, to be paid by April 30, 2010) was published in the Official Journal of February 9, 2010.

#### ***Broadband and digital divide***

Law 69 of June 18, 2009, has introduced economic and legal measures to promote the expansion of broadband. In particular, the law provides for:

- a series of exceptions and corrections to the existing legislation to remove some legal obstacles and operationally facilitate the building of networks;
- a provision of up to 800 million euros (with 85% earmarked for the south of Italy) to complete a program for infrastructure work that the Government should deem necessary to technologically update the electronic communications network. Up to now the resolution by CIPE, that should have established the actual distribution of the fund and the relative amount has not been issued.



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**4.3.2 PRIVACY AND DATA PROTECTION**

Telecom Italia must comply with Italy's data protection code (Legislative Decree No. 196/2003), which came into force on January 1, 2004.

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

The code applies to all processing within Italy and also affects organizations not based in Italy that use equipment located in Italy, such as computer-based systems.

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

The data subject (any natural or legal person that is the subject of the personal data) shall receive a preliminary information on data processing purposes and modalities. Consent of the data subject is necessary to process personal data, except for specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.

***Italy's Privacy Provisions Related to Specific Processing Operations of the Telecommunications Sector***

The above mentioned code has implemented the provisions contained in the E-Communications Privacy Directive of the European Union.

As for data retention, communications service providers (CSPs) are permitted to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and telematic traffic data for the purpose of detecting and preventing crime. In the course of 2008, data retention terms were significantly reduced by Legislative Decree n. 109/2008. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for telematic traffic; 30 days for unsuccessful call attempts.

Traffic data must be kept and controlled in compliance with the general provision issued by the Italian Privacy Authority (*Garante*) on January 17, 2008 (as amended on July 24, 2008), which requires TLC operators to adopt strict security measures.

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

#### 4.3.3 ANTITRUST IN ITALY

##### *Legislation on competition*

Telecom Italia is subject to Italian competition law.

Law 287 of October 10, 1990 ( Provisions for protecting competition and the market ) created Italy's *Autorità Garante della Concorrenza e del Mercato*, or Antitrust Authority.

The Antitrust Authority is responsible for:

- applying Law 287 of 1990 and supervising the following matters: a) restrictive agreements; b) abuses of a dominant position; and c) concentrations of enterprises;
- applying, whenever the necessary conditions exist, the corresponding European Law (Articles 81 and 82 of the EC Treaty);
- applying the standards of Legislative Decree 206 of 2005 with regard to unfair commercial practices;
- monitoring conflicts of interest in the case of people holding government posts.

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In addition, article 14 of Decree Law 223/06, entitled "Supplementary powers for the Antitrust Authority", converted into law by Law 248/06, established that the Authority may impose the adoption of precautionary measures and declare obligatory the commitments made and presented by businesses, in order to eliminate any anti-competitive practices, simultaneously ending the proceedings with the finding of a non-violation.

#### **4.3.4 TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL**

The activities of the Telecom Italia Group in Brazil are subject to the General Law on Telecommunications (Ley General de Telecomunicações - LGT) of 1997 and the regulatory framework for the supply of telecommunications services promulgated by the Brazilian regulatory authority, Agência Nacional de Telecomunicações (ANATEL).

ANATEL is responsible for the regulation and implementation of national policy regarding the telecommunications sector with autonomy in relation to finances and decision-making and has a broad scope to guarantee competition and prevent concentration of services. ANATEL has the power to impose restrictions, limitations or conditions when granting concessions, permission or authorizations.

On January 1, 2002, the Brazilian telecoms market was liberalized and any operator can enter the market, although, it needs authorization from ANATEL to operate.

Four main players operate in the mobile market (Claro; Vivo; Oi; Tim Brasil) and compete nationwide. Third generation services deployment started in 2008.

#### ***Authorizations***

The authorizations for mobile telephony give the companies of the Telecom Italia Group (which operate under the brand name Tim Brasil) coverage of the entire Brazilian territory and include the possibility of offering long-distance calls.

In May 2007, Tim Celular, a company of the Telecom Italia Group, obtained the licenses to operate local fixed telephone networks throughout Brazil; this will also enable the Tim Brasil group to operate in the fixed telephone services market.

In August 2009, ANATEL gave its approval for the acquisition of the fixed line operator Intelig, which operates as a National and International Long Distance operator in Brazil and provide local fixed service in a number of regions in Brazil. According to the regulations, Tim Brasil and Intelig are obliged to solve the overlapping of the fixed service authorizations within 18 months from the acquisition, keeping only one authorization for class of service.

For details please also see Item 4. Information on the Telecom Italia Group 4.2.2 Brazil .

***Interconnection rules***

Telecommunication operators must publish a public offering of interconnection economic conditions and are subject to the General Interconnection Regulatory Framework promulgated by ANATEL in 2005.

Fixed line retail tariffs are subject to price regulation according to specific telecommunication and productivity factor indexing; fixed interconnection charges are regulated by a percentage of the retail price, while mobile interconnection charges are freely negotiated by operators with dispute resolution by the regulator in case of disagreement.

Interconnection agreements must be approved by ANATEL before they can be applied.

***Significant Market Power (SMP) and instruments for cost orientation***

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting , introducing the obligation of presenting the Account Separation and Allocation Document ( DSAC ) by the license holders and Groups holding significant market power in offering fixed and/or mobile network interconnection and wholesale leased lines ( EILD ). Starting from 2006, operators are delivering the requested information to ANATEL.

The application of Cost Oriented interconnection charges are expected in 2010.

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*Main regulatory developments in 2009*

The Brazilian Government announced the intention to launch a National Broad Band Plan in 2010, to reach the total of 90 million BroadBand accesses in 2014 (30 million fixed accesses; 60 million wireless accesses).

ANATEL consulted stakeholders (October 2009) on the hypothesis to assign 140MHz in the 2.5GHz band to wireless and mobile BroadBand services. The 2.5MHz band is currently assigned to MMDS TV services.

ANATEL approved (November 2009) the decision on the methodology to calculate the weighted average cost of capital (WACC) of the Brazilian telephone sector that should be applied with the introduction of Cost Oriented interconnection charges.

ANATEL launched (December 2009) a public consultation on the introduction of mobile virtual operators in Brazil. The consultation ended March 2010.

ANATEL launched a public consultation (December 2009) on the draft text of the bid to assign a new portion of spectrum in the 2.1GHz band (3G services). The consultation ended in February 2010. The bid is expected for the second half of 2010.

*Main regulatory developments in the first quarter 2010*

ANATEL consulted stakeholders (February 2010) on an amendment to the rules regulating Mobile Operators Network Remuneration. According to the proposal, operators with a market share below 20% in each of the three regions in which Brazil is divided for mobile licensing purposes, should not be considered as Significant Market Power Operators in the wholesale market of mobile interconnection (according to the current rule, each mobile operator is considered as a Significant Market Power Operator in its own business area). If approved, this amendment may open the way to an asymmetric regulation of the mobile interconnection rates.

**4.3.5 BROADCASTING REGULATORY FRAMEWORK IN ITALY**

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

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

The new Decree 44 introduces changes to the audiovisual legislation in the areas of advertising and product placement, promotion of European works, short extracts rights, protection of minors, and extends regulation to non linear audiovisual services.

AGCom (the Regulatory Authority) will implement the new rules through regulation, including adjustment of authorisation titles already released to the new rules.

As regards advertising on linear services (tv channels) the rules on ads positioning have been liberalised, providing more freedom in the way advertising is inserted in tv schedules.

As regards the time limits for advertising, the Decree has substantially confirmed the hourly and daily limits for free to air tv channels, while it has reduced hourly limits for pay-tv channels which will have to gradually reduce advertising from 18% in a given hour applying in 2009 to 12% in 2012.

The Decree also allows for Product Placement, in line with the rules set by the Directive AVMS, which limit this opportunity to movies, fiction and sports programmes. The implementation rules will be set through self-regulation.

Protection of minors has been reinforced, in particular as regards pay-tv services and on demand services. All audiovisual media service providers will have to adopt a Classification System of contents directed at protecting minors.

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The rules on promotion of European works have also been renewed and this will imply a new regulatory framework on transmission and investment quotas. Telecom Italia Media will be able, as in the previous regulatory framework, to apply for an exemption, in particular as regards quotas on programmes for minors and on Italian recent movies.

The Decree also amends the rule on secondary rights for independent producers, which will therefore be the object of new regulation and self-regulation. Telecom Italia Media positively evaluates this change as it will lessen the burden in terms of obligations towards independent producers.

Finally, in line with the Directive AVMS, the Decree extends regulation to non linear audiovisual services. An audiovisual media service provider is identified as the one having the editorial responsibility of the contents provided in the catalogue. A general authorisation is needed. AGCom will issue regulation on this matter by June 30, 2010.

As regards digital terrestrial television, Decree 44 entrusts AGCom to issue a plan for the implementation of a Logical Channel Numbering (LCN) for the digital terrestrial platform. So far, in the process of the transition from analogue to digital terrestrial tv and specifically in the areas where switch off has taken place, the absence of a LCN system has caused uncertainties for broadcasters due to conflicts on channel numbers. Therefore this is a critical issue for TIMedia channels, La7 and Mtv, which are positioned on number 7 and 8 respectively, as approval of a plan by the Authority will prevent problems in the next switch off areas (in the second half of 2010, 23 million people will be involved in the transition to digital tv).

#### ***Switch-off calendar***

The complete switch-off of analogue tv and conversion will take place by December 31, 2012. In 2009, complete Switch Off has taken place in the following Italian Regions: Sardegna, West Piemonte, Valle d Aosta, Trentino Alto Adige, Lazio and Campania. Switch off is planned in the second half of 2010 in Lombardia, East Piemonte, Emilia Romagna, Veneto, Friuli Venezia Giulia, Liguria, involving 23 million people and will result in 70% of the Italian population being digital.

#### **Digitalisation of broadcasting networks and frequencies**

In response to the EU infringement procedure 2005/5086 against Italy, the Government approved in June 2008, Law No. 101, which abolishes the special licensing regime for digital terrestrial network operators and introduces the authorization regime in line with the Code of Electronic Communications and the UE Directives.

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

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The European Commission has positively evaluated the changes introduced with law 101/08, but has asked that more spectrum resources should be assigned to new entrants (digital dividend). In response to these further requests, AGCom has established (Decision 181/09/CONS) the criteria for the complete digital conversion of the television terrestrial networks. At present the digital dividend consists of 5 DVB-T Networks to be assigned in two different tenders, one consisting of 3 Networks/Muxes and the other of 2 Networks/Muxes. AGCom has opened a consultation, yet to be concluded, on the criteria to be adopted in the two tenders for the assignment of the digital dividend. The consultation document presented a number of issues on which Telecom Italia Media has asked for changes. AGCom is also in the process of approving the National Plan of Assignment of the Frequencies ( **PNAF** ) necessary for the assignment of frequencies in the digital switch off areas as well as for the digital dividend tender. Telecom Italia Media Broadcasting ( **TIMB** ), the network operator of the Telecom Italia Media group, has been assigned 4 Muxes in Sardinia, the first switch off area. In the other switch off Regions, however, TIMB was assigned only 3 Muxes, in contrast with the rule setting a one-to-one conversion principle (1 analogue network = 1 digital Network). The Telecom Italia Media group has appealed against this decision in order to safeguard its interests.

### *European Commission Market Test on Sky Italia commitments*

In 2003 the European Commission approved the acquisition of Telepiù by NewsCo, thus allowing for a single operator on satellite pay tv services, but imposed a number of undertakings in order to ensure that the pay tv market remained open.



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**Regulation**

One of these undertakings consisted in preventing Sky Italia from entering the digital terrestrial market both as network operator and as pay tv service provider.

Newscorp has recently asked the European Commission to remove the undertaking which prevents Sky Italia from becoming a digital terrestrial network operator so as to allow it to participate in the digital dividend beauty contest. The European Commission has issued a market test in order to receive evaluations from all stakeholders. The decision is yet to be released.

Such decision could change the market dynamics and the existing regulatory framework.

***Market 18 (co-location services)***

RAI and Mediaset, identified as holding a joint dominance in the analogue broadcasting market, have published a Reference Offer for co-location services of transmitters on analogue sites, as established by the AGCom Decision of April 2008, on market 18 . The Reference Offers could establish a benchmark for co-location prices for digital sites.

AGCom has launched, but yet not concluded, a new market analyses in March 2009, directed at deciding whether to eliminate, maintain or modify the above mentioned obligations.

***Sports rights and emerging platforms***

With Decision 665/09/CONS, the Authority has identified IPTV, DVBH, GSM, GPRS and UMTS as emerging platforms within the scope of the commercialisation of sports rights. Legislation in this area foresees special favour rules to access rights for emerging platforms.

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Glossary Of Selected Telecommunications Terms

**4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Glossary Of Selected Telecommunications Terms**

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

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

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

**Carrier.** Company that makes available the physical telecommunication network.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Exchange.** See Switch.

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

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

**FTT HOME, FTT CURB, FTT (Fiber to the ).** It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the

distribution network where the fiber connection is made, with respect to the end-user's location. In the case of **FTT Curb** (Fibre to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of **FTTHome** (Fibre to the Home), the fiber connection terminates inside the customer premises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**OLOs (Other Licensed Operators).** Companies other than the incumbent operator which operate telecommunications systems in a national market.

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

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

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

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

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

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

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

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

**PCS.** Personal communications services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**TRX.** Radio transceivers located in BTS.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**Wi Max (Worldwide Interoperability for Microwave Access).** The Wi MAX is a technology that allows wireless access to BroadBand telecommunications networks. It is defined by the Wi MAX Forum, a global

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consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

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

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

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As of December 31, 2009 and 2008, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2009				As of December 31, 2008			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of euros, except percentage)							
Land	125		125	0.8	123		123	0.8
Civil and industrial buildings	511	1,246	1,757	11.8	493	1,302	1,795	11.5
Plant and equipment	11,462		11,462	76.9	12,037	37	12,074	77.1
Manufacturing and distribution equipment	31		31	0.2	38		38	0.2
Ships	26		26	0.2	33		33	0.2
Aircraft						3	3	
Other	618	7	625	4.2	857	16	873	5.6
Construction in progress and advance payments	833	43	876	5.9	671	52	723	4.6
<b>Total</b>	<b>13,606</b>	<b>1,296</b>	<b>14,902</b>	<b>100.0</b>	<b>14,252</b>	<b>1,410</b>	<b>15,662</b>	<b>100.0</b>

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

**Real Estate (Land, Civil and Industrial Buildings)**

As of December 31, 2009, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

On December 31, 2009, Tim Brasil group owned approximately 110,225 square meters and leased approximately 1,302,607 square meters of real property, all of which were available for installation of our equipment. Tim Brasil group also leases approximately 127,039 square meters and owns approximately 107,981 square meters of office space.

**Network Infrastructure (Plant and Equipment)**

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

*Domestic Fixed Network*

**General.** Our domestic fixed network consists of 33 gateway areas (each gateway area has two interconnection points enabling information to be exchanged between the fixed and mobile networks) and 628 main local switches (only for fixed OLOs). Each local switch belongs to only one of the 33 gateway areas. The long-distance fixed network (Arianna SDH and Phoenix) routes 4,413 VC4. The fixed long distance network also includes 82 optical channels 2.5 Gbps point to point and 412 optical channels 10 Gbps point to point (also called lambdas from the greek letter  $\lambda$  used for wavelength in physics). The fixed copper network includes 110.5 million km of copper pairs.

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At December 31, 2009, the domestic fixed network consisted of the following:

Exchange areas	approximately 10,400
Switching areas	628 Urban Group Stages (SGU)
Gateway areas	33
Copper network	110.5 million kilometers-pair
Fiber optic access/carrier network	4.1 million kilometers-line
Long Distance VC4	4,413
Long Distance Lambda	82 2.5 Gbps, 412 10 Gbps
BroadBand/ADSL network	8,671 local switching areas covered
IPTV (Internet Protocol TV)	1,437 local switching areas covered
POP main data networks	32

**SDH and ATM.** Our Synchronous Digital Hierarchy ( **SDH** ) transmission systems are operating on fiber optics from 155 Mbit/sec up to 10 Gbit/sec. Work on the development of the national network (Long distance) that, by use of the latest generation of SDH technologies and the optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for the transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2009. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 40 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

In November 2002, Telecom Italia introduced a new generation of Optical Digital Cross Connect ( **ODXC** ) on the domestic fixed transmission backbone in order to progress with the transition from a national network based on a SDH rings architecture, towards the new generation of meshed ASTN (Automatically Switched Transport Network) optical backbone. In 2009, Telecom Italia did not add any ODXC nodes but increased the capacity of existing links and nodes. The evolution of the transport network towards a completely optical network will increase the operating capacity for all types of traffic, from voice to Internet.

Asynchronous Transfer Mode ( **ATM** ) switching technology allows the transfer of information combining data, video, voice and other services on public and private networks both at a national and international level. Telecom Italia's ATM/Frame Relay networks work together as a multiservice network, using SDH transmission systems as a physical layer. The ATM Network allows for the provision of ATM native services with access rates ranking from 2Mbit/s up to 155 Mbit/s. It also acts as a backbone for both the Frame Relay Access network (with access rates ranking from 64 kbit/s up to 2 Mbit/s), and for the DSL (Digital Subscriber Line) Network, used for the provisioning of xDSL services (ADSL High-bit-rate Digital Subscriber Line or HDSL) and SDSL. The ATM/Frame Relay networks allow customers to access IP and MPLS services (Multi Protocol Label Switching) with access speeds between 64 kbit/s to 155 Mbit/s.

**OPB (Optical Packet Backbone).** In 2009 we continued to implement the introduction in the network of Terarouter equipment, deployed in some of the most important PoPs of the network. At the end of 2009 OPB Network had Terarouter nodes in the following seventeen PoPs: two Centro Stella PoPs in Rome, two Centro Stella in Milan (Inner Core PoPs) and the OPB PoPs located in Naples, Turin, Florence, Palermo, Bari, Bologna, Brescia, Padua, Catania, Nola, Venice, Pisa and Ancona (Outer Core PoPs).

The OPB network is used to transport:

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

**OPM (Optical Packet Metro).** At the end of 2009 OPM consists of 30 metro-regional networks to collect traffic to and from residential customers through DSLAM IP to supply the IPTV and ADSL2+ services. The OPM network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) transport, aggregation as well as direct connection (Node B over optical fiber).

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**Gigabit Ethernet Access.** Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway and Genius services on GBE optical access). At the end of 2009, services with GBE optical access covered 36 towns in Italy.

**Network quality and productivity.** Following the completion of the porting of all the OSS systems on OPEN platforms in 2006, we completed in 2007 the integration of the supervision systems of the fixed and mobile networks and of the platforms for service creation. This allowed us a 15% saving on activities previously performed by the separate systems.

**BroadBand/ADSL network.** Telecom Italia's BroadBand network can offer hi-tech telecommunications services and multimedia applications. This objective is being reached through the gradual installation of fiber optic cables. In 2009, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 6,925 towns (compared to 6,676 at the end of 2008). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2009, 8,671 local switching areas were covered by ADSL technology, (compared to 8,363 at the end of 2008).

**NGN FTTx.** In 2009 Telecom Italia continued to deploy a new generation access network, based on fiber optical cables and GPON (Gigabit capable Passive Optical Network) technology. First deployments have been done using FTTB (Fiber To The Building) architecture and new generation cabinets, equipped with VDSL2 cards. During 2009, further 3,500 buildings have been passed in the central area of Milan. Fiber optical deployment interested 10 central areas, where Telecom Italia laid new optical cables or acquired the right of use (IRU approach) for 15 years on fiber optics from Metroweb (a utility that already owns a widespread optical access network in Milan).

**Fiber optic cables.** At December 31, 2009, approximately 4.1 million kilometers of fiber optic cables have been installed for access and transport, of which approximately 1.2 million kilometers are installed in the long-distance network. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video. To make these services more widely available, Telecom Italia is evaluating the introduction of fiber optics to the access network.

**VoIP (Voice over IP) Services.** The complete digitalization of the network both the backbone and the metropolitan network is proceeding towards the distribution network (with ADSL), thus favoring the introduction of VoIP and other associated services. These services are available to business customers and residential customers who sign up for ADSL. VoIP is regarded as an additional service, whose value, for the customer, is expressed in having access to a greater number of lines, numbers and terminals. Furthermore, by exploiting extra functions, such as the presence and communities typical of always-on connection systems, it is possible to have additional revenues. At the same time, the value added perceived by customers contributes to the expansion of BroadBand and, consequently, increases the benefits resulting from complete digitalization.

**IPTV (Internet Protocol TV).** Quadruple play is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and able to supply a vast range of services. IPTV is an important part of this evolution. In 2006 the first commercial service was launched, involving 836 exchange areas and 258 towns. In 2009 the commercial service with access to IPTV technology has been expanded to 1,437 exchange areas (compared to 1,119 at the end of 2008). IPTV is considered a key component in providing customers with access to information in any form, anywhere, through fixed and mobile infrastructures as the situation demands.

*Domestic Mobile Network*

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

As of December 31, 2009, the Telecom Italia GSM/EDGE network consists of 14,634 radio base stations (compared to 14,301 at December 31, 2008, an increase of 2.3%) and 750,520 radio channels (a decrease of 0.5% compared to 754,632 at the end of 2008). The network also includes 456 Base Station Controllers ( **BSC** ) (a decrease of 2 units compared to December 31, 2008).



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

**Description Of Property, Plant And Equipment**

During 2009 planning and implementation of the UMTS network continued, so that coverage was extended to all the regional capitals, in accordance with the obligations laid down in the 3G license, as well as other areas throughout Italy. The Telecom Italia UMTS network consists of 12,255 radio base stations (compared to 11,256 at December 31, 2008, an increase of 9%) and 1,779,600 radio channels (an increase of 5.7% compared to 1,683,440 at the end of 2008).

We continued the implementation of the network plan to distribute the High Speed Downlink Packet Access ( **HSDPA** ) phase 1 (3.6 Mbps in downlink) and at the same time to introduce the HSDPA phase 2 (7.2 Mbps in downlink) and the High Speed Uplink Packet Access ( **HSUPA** ) phase 1 (1.46 Mbps in uplink); these systems aim to increase the overall speed of the data transmission package offered by UMTS.

At the end of 2009 all UMTS stations are able to perform HSDPA phase 1 and phase 2.

Also operating on the network are 98 Radio Network Controllers ( **RNC** ) (an increase of 7 units as compared to the end of 2008).

The process of modernizing the GSM exchanges with older technologies has begun, so that new technologies can be adopted. These systems will have an architecture which is the same as those used on the UMTS network. These exchanges have layered or split technology, (both terms are used), in which the Monolithic Mobile Switching Center ( **MSC** ) is replaced by an exchange with two junctions:

- the MSC server controlling and supervising the MGW (Media GateWay) equipment;
- the MGW for traffic switching and media adjustment.

This innovation will make it possible to implement an integrated GSM/UMTS network, which, with time and the necessary measures in terms of size and operations, will eventually create a configuration where the switching exchange is shared by the GSM and UMTS access systems; the aim of which is to improve management of the service leading to a seamless provision of services.

At December 31, 2009, the GSM network includes: 26 MSC exchanges, 10 transit exchanges and 9 gateways.

At December 31, 2009, the GSM/UMTS network includes: 61 MSC servers, 82 MGWs, 48 Home Location Registers ( **HLRs** ), 20 Gateway GPRS Support Nodes ( **GGSNs** ) and 48 Serving GPRS Support Nodes ( **SGSN** ).

***International Fixed Network***

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

- a fully integrated proprietary cross border backbone operating mainly in Europe and in the United States;
- bilateral connections.

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

The international network connects more than 400 operators all over the world with a span of approximately 434,500 Km on submarine systems reaching all the main regions worldwide.

The cross-border backbone integrates 3 regional networks:

- Europe (**PEB**);
- Latin America (**LAN**);
- Mediterranean basin (**MED**).

In detail:

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

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

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

- **LAN (Latin American Nautilus).** High-capacity backbone based on fiber optic ring networks, terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring, which has automatic optical traffic protection and a capacity up to 320 Gbit/s, connects the main cities of South America to Central and North America.
- **MED (Mediterranean Nautilus).** Submarine ring network, with a highly reliable configuration, a total length of 7,000 km and a capacity up to 3.84 Tbit/s connecting the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa and Tel Aviv.

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

In 2009 the Pan European Backbone was upgraded in order to keep up with the IP/Data traffic growth. New metro rings have been deployed in London and Frankfurt while capacity has been increased on the Paris and Amsterdam city rings towards the main telehouses. As for the IP backbone, the trunks among main POPs have been upgraded and new Terabit Routers have been deployed in London and Milan. New IP POPs have also been added to the backbone in Catania, Bucharest and Istanbul while the Telecom Italia Sparkle North America subsidiary expanded the trunks connecting Dallas, Los Angeles, Chicago and Palo Alto POPs.

In order to increase connectivity towards Africa, the Mediterranean and the Middle and Far East countries, upgrades of the SAT-3, SEA-ME-WE3 and SEA-ME-WE4 submarine cables have been implemented. The connectivity among main cable stations and the POPs of the Pan-European cross-border backbone has been expanded as well.

In 2009 the VoIP (Voice over IP) capabilities have been expanded with a new softswitch and additional SBC (Session Border Controller) equipments to cope with traffic increase. Upgrades and new capabilities have also been deployed on the platform handling pre-paid traffic.

Actions to complete the services portfolio for mobile operators have included the introduction of Roaming Hub and Roaming Recharge.

As for the service portfolio for multinational customers, network upgrades have been implemented in the London, Brussels, Milan, Newark, Frankfurt and Paris POPs.

***Brazilian Network***

Telecom Italia Group's principal properties in Brazil consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment.

As of December 31, 2009, we had 95 mobile switches and 10,775 radio base stations. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

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**Item 4A. Unresolved Staff Comments**

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

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**Item 5. Operating And Financial Review And Prospects**

**Restatement Due To Errors**

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.*

**5.1 RESTATEMENT DUE TO ERRORS**

On February 24, 2010, we announced that we were postponing the approval of our financial statements due to the issuance of the Rome court Order relating to Telecom Italia Sparkle, which consisted of over 1,600 pages collected as evidence over four years using powers and authority only available to the Prosecutor (the **Order**). The ongoing criminal investigation involving Telecom Italia Sparkle and the Order which was served on Telecom Italia Sparkle on February 23, 2010 alleges that a number of former directors, former employees and current employees of Telecom Italia Sparkle committed crimes of cross-border criminal conspiracy, tax evasion, international money-laundering, reinvestment of profits from criminal activities, and registering assets under false names.

As part of the proceedings, the Rome Judge issued a seizure order for 298 million euros, corresponding to the alleged unlawful deduction of VAT related to the transactions under investigation. In addition to the amounts seized, Telecom Italia Sparkle, as detailed in Note *Contingent liabilities, other information, commitments and guarantees* in the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, provided guarantees for 195 million euros, of which 72 million euros corresponds to the potential seizure of profits generated by the sales transactions noted above, and 123 million euros corresponds to the difference between the amount already seized and corresponding to the VAT deducted during tax years 2005, 2006 and 2007 (298 million euros), and the highest amount Telecom Italia Sparkle could potentially owe in settlement of its tax position regarding the use of VAT credits on the basis of one of the possible settlement procedures with the Italian Tax Authorities.

The sales transactions effected in the financial years 2005, 2006 and 2007, related to **Premium** telecommunications services carried over the Telecom Italia Sparkle network and were conducted with a number of small telecommunications carriers resident in the European Union (EU).

**Internal investigation 2007**

In November 2006, the Rome Judge that issued the Order interviewed a number of Telecom Italia Sparkle officials, directors and employees in connection with the Prosecutor's investigation of a VAT fraud alleged to have been committed by a number of Italian telecommunications operators, including the clients and suppliers identified in the Order. Soon after Telecom Italia became aware of the judicial investigation, in January 2007 Telecom Italia Sparkle, at the request of Telecom Italia, launched an internal investigation into contracts and commercial relations with these particular clients and suppliers. On completion of the internal investigation, in June 2007, commercial relations with the above-mentioned parties were terminated. As part of the investigation, and with the assistance of independent tax consultants, Telecom Italia assessed its VAT position and particularly the tax paid with regard to the above-mentioned commercial transactions. The full extent of the alleged VAT fraud was not detected at the time, and, as a result, the conclusion of the investigation was that deduction of VAT on these purchases was appropriate.

**Events subsequent to receipt of Order**

Analyses and information acquired since the Order have provided additional facts for assessment of the events under investigation and the analysis undertaken in the past, adding information which has become available through investigations undertaken by the Rome Prosecutors. Subsequent to the issue of the Order, independent legal and accounting advisors were appointed to conduct a documentary investigation for the period 2005 and 2009 in order to discover whether events of the kind alleged by the Order took place. Voice traffic data and relative costs and revenues were analyzed for the years 2005-2009 with particular focus on Telecom Italia Sparkle. Documentary analysis, covering this same period, was also conducted on traffic contracts (numbering around 500), for voice traffic in particular, with mainly established industry participants, other than major telecommunications companies and the Telecom Italia Group companies. The contracts were subject to comparative analysis (against contractual practice with other operators) and the biggest contracts were individually analyzed.

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**Restatement Due To Errors**

The contracts at the centre of the ongoing criminal proceedings were excluded from the documentary investigation in order to avoid interfering with the Rome Prosecutor's inquiries.

The analysis did not cover correspondence, e-mails or other written communications nor were company employees interviewed, though the advisors did consult with management for the exclusive purpose of clarifying aspects of their investigation and findings. This was due in part to restrictions imposed by the ongoing criminal investigation, as well as due to restrictions imposed by labour and privacy laws, although such restriction did not impact the sufficiency of the investigation.

As regards voice traffic and related costs and revenues, the analysis focused mainly on situations that presented similar features to those alleged by the Prosecutor, including:

- (i) high unit value traffic flows;
- (ii) traffic received from foreign counterparts and delivered to counterparts in Italy;
- (iii) high concentration traffic;
- (iv) traffic destined for countries with favorable tax regimes (destination and counterparts); and
- (v) payments made in countries other than the country of domicile of the contractual counterparts, as well as to counterparts resident in countries with a risk of money laundering.

The main findings which arose from the documentary investigation were the following:

- with respect to the larger contracts in terms of costs and revenues, the investigation did not find any evidence that they were entered into other than in the ordinary course of business; and
- with respect to certain traffic data and related costs and revenues for the years 2005, 2006 and 2007, the advisors found that in a number of cases, mainly in 2005, certain anomalies occurred in relation to the destination and routing of traffic flows which had an impact on the revenues and costs of Telecom Italia Sparkle totaling approximately 52 million euros, of which 47 million euros related to the reciprocal delivery and receipt to/from other European carriers of specific volumes of similar and non-differentiated traffic destined for non-EU counterparts with equal costs and revenues.

The findings of the internal investigation were presented to the Board of Statutory Auditors and the Company's Board of Directors, and taken into account in connection with the Board of Directors' approval, on April 12, 2010, of the Group's consolidated financial statements.



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Drawing upon information available under the Order (Italian law does not allow disclosure of any information acquired by a public prosecutor using rights, powers and means available solely to magistrates until completion of the investigation) along with data acquired as part of the independent documentary investigation described above, Telecom Italia concluded that a number of transactions in the financial years 2005, 2006 and 2007 were affected by certain anomalies such that certain transactions and traffic were without substance, and, in addition, there were certain anomalies relating to the destination and routing of some traffic, to such an extent that Telecom Italia now believes that these transactions resulted in errors as defined under IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*).

Therefore, in compliance with IAS 8, but without prejudice to any rights and remedies available to Telecom Italia Sparkle under Law 231, Telecom Italia is restating the revenues and costs recorded in 2005, 2006 and 2007 for these transactions as follows:

- **2005-2007:** adjustments of revenues and costs for the transactions identified; the surplus of revenues over costs has been adjusted and accrued as a provision for risks and charges under Trade and miscellaneous payables and other current liabilities in regard to legal risks and charges connected with this matter;
- **2005-2007:** provisions for risks and charges included under Trade and miscellaneous payables and other current liabilities for further tax risks and charges (including those related to the documentary investigation amounting to 12 million euros, of which 11 million euros for improperly deducted VAT and 1 million euros for penalties);
- **2005-2009:** provisions for risks and charges concerning legally-applicable interest associated with the above provisions for the year to which they apply (including those related to the documentary investigation amounting to 2 million euros).

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Restatement Due To Errors**

As described in our consolidated financial statements included elsewhere in this Annual Report, after making the foregoing adjustments and provisions, the data for the 2008 and 2007 financial statements used in comparisons have been restated. The total amount set aside in provision for risks and charges, recognized against Equity attributable to Owners of the Parent, amounts to 487 million euros as at January 1, 2008, 497 million euros as at December 31, 2008, and 507 million euros as at December 31, 2009.

The adjustments and provisions made are summarized as follows:

	2009	2008	Year ended December 31, (millions of euros)			Total
			2007(*)	2006(*)	2005(*)	
· Adjustment to Revenues and Other income			(168)	(754)	(323)	(1,245)
· Adjustment to Acquisition of goods and services			155	707	311	1,173
· Other operating expenses (Provision charges for indirect taxes (VAT) and fines)			(70)	(256)	(77)	(403)
<b>IMPACT ON OPERATING PROFIT</b>			<b>(83)</b>	<b>(303)</b>	<b>(89)</b>	<b>(475)</b>
· Finance expenses (Provision charges for interest on VAT)	(10)	(10)	(8)	(4)		(32)
<b>IMPACT ON PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>(10)</b>	<b>(10)</b>	<b>(91)</b>	<b>(307)</b>	<b>(89)</b>	<b>(507)</b>

	2009	As of December 31, (millions of euros)			
	2009	2008	2007	2006	2005
<b>IMPACT ON EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>(507)</b>	<b>(497)</b>	<b>(487)</b>	<b>(396)</b>	<b>(89)</b>
Trade and miscellaneous payables and other current liabilities (Provisions for risk and charges)(1)	507	497	487	396	89
<b>IMPACT ON TOTAL CURRENT LIABILITIES</b>	<b>507</b>	<b>497</b>	<b>487</b>	<b>396</b>	<b>89</b>

(\*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the consolidated financial statements included elsewhere in this Annual Report.

(1) The adjustments made do not impact the other statement of financial position line items.

Restated adjusted data are as follows:

	2009	Year ended December 31, (millions of euros)			2005(*)
	2009	2008	2007(*)	2006(*)	2005(*)
Revenues	27,163	29,000	29,802	29,785	29,193

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<b>Total operating revenues and other income</b>	<b>27,445</b>	<b>29,336</b>	<b>30,185</b>	<b>30,358</b>	<b>29,861</b>
Acquisition of goods and services	(11,480)	(13,120)	(13,442)	(12,876)	(12,253)
Other operating expenses	(1,616)	(1,631)	(2,268)	(1,769)	(1,524)
<b>Operating profit</b>	<b>5,493</b>	<b>5,437</b>	<b>5,738</b>	<b>7,269</b>	<b>7,548</b>
Finance income (expenses)	(2,170)	(2,611)	(2,183)	(2,191)	(2,058)
<b>Profit for the year</b>	<b>1,596</b>	<b>2,178</b>	<b>2,360</b>	<b>2,696</b>	<b>3,601</b>
<i>Attributable to owners of the Parent shareholders</i>	<i>1,581</i>	<i>2,177</i>	<i>2,353</i>	<i>2,707</i>	<i>3,127</i>

	2009	As of December 31,		2005
		2008	2007	2006
		(millions of euros)		
<b>Equity attributable to owners of the Parent</b>	<b>25,952</b>	<b>25,598</b>	<b>25,431</b>	<b>25,573</b>

(\*) Error corrections pertaining to 2007, 2006 and 2005 have been reflected in the January 1, 2008 consolidated statement of financial position in accordance with the provisions of IAS 8. The 2006 and 2005 periods are not presented in the consolidated financial statements included elsewhere in this Annual Report.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Critical Accounting Policies And Estimates**

For further details please see paragraphs one through three of the *Restatement* section of the Note *Restatement as a result of errors and changes in accounting policies* and Note *Contingent liabilities, other information, commitments and guarantees* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS**). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of assumptions and estimates that underlay the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results may differ from these estimates under different assumptions or conditions. Estimates are reviewed periodically.

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

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of Management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

**Revenue recognition**

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

· *Revenues from services rendered*

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

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

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

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

### *Revenues from sales and bundled offerings*

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

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

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For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

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

#### *Revenues on construction contracts*

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

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

#### **Allowance for doubtful accounts**

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

#### **Accounting for tangible and intangible non-current assets**

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on Management's judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

#### **Acquisition accounting, goodwill and purchase price allocation**

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long-term impact on the separate income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities assumed.

The purchase price allocation requires that all assets and liabilities be valued and that significant estimates be made. A change in any of these estimates or judgments could change the amount to be allocated to a particular intangible or tangible asset. The resulting change in the purchase price allocation to non-goodwill assets or liabilities has a direct impact on the final amount of the purchase price that cannot be allocated to a particular asset (i.e., goodwill).

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If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the separate income statement.

### **Accounting for transactions on interests in group companies**

We have entered into certain transactions on interests in Group companies, and in the future we may make further similar transactions.

Following the early adoption of IAS 27R, which was applied prospectively, starting from 2009 changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

Before 2009, in relation to transactions regarding interest in companies already controlled, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), we have applied the following accounting treatments (consistent with the Parent entity extension method):

- *acquisition of interests in companies after control is obtained:* on acquisition, the Group pays a consideration to the non-controlling interests and adjusts the non-controlling and controlling interests and records a Goodwill equal to the excess of the consideration paid over the carrying amount of the corresponding portion of assets and liabilities acquired;
- *sale of interests in companies while control is retained:* the difference between the consideration received and the corresponding carrying amount in the consolidated financial statements is recognized in the separate income statement.



As far as intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership, in the absence of a Standard or a specific Interpretation, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), we have applied the following accounting treatment: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. Equity attributable to the non-controlling interests which does not directly take part in the transaction is adjusted to reflect the change with a corresponding opposite effect on the equity attributable to the owners of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

#### **Impairment of assets**

The determination of impairments of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

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

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

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To test for impairment, goodwill is allocated, at the date of acquisition, to each of the cash-generating units or groups of cash-generating units that is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units), to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows generally cover a period of 3 years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates. For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

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

**Intangible and tangible assets with a finite useful life.** At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. When indicators of an impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate income statement. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets, groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.



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Financial assets include, in particular, investments some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment's carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and relies heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

**Derivative financial instruments**

Telecom Italia enters into several different types of derivative contracts in order to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the separate income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time as the hedged transaction affects the separate income statement. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. We rely on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

**Employee severance indemnities**

Employee severance indemnities are a form of post employment benefit, mandatory for Italian companies. They have the nature of deferred compensation and are based, among other things, on the employee's years of service and the remuneration earned by the employee during the service period.

Under IAS 19, the employee severance indemnity is classified as a defined benefit plan, except when employees, starting from the year 2007, choose to devote their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the State Social Security Institute (INPS); in such case employee severance indemnity is classified as a defined contribution plan.

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit costs may be materially affected.

**Provisions and contingent liabilities**

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such

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judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

**Income tax expense**

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company's ability to generate sufficient taxable income in future years and the reversal of temporary liabilities, taking into account any restrictions on the carryforward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate income statement.

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**5.3 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2009**

**5.3.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES**

Increased competition continues to have a significant impact on the development of our business.

Key trends that have had an impact on our business areas and are expected to continue to have an impact are:

*Domestic Business Unit*

- defense of Domestic Market share and focus on quality as a value driver through the implementation of the customer driven organization;
- continuing defense of core traffic and access businesses with possible stabilization of market share on both Fixed and Mobile Telecommunications;
- convergence of services such as fixed and mobile voice offers, fixed and mobile BroadBand accesses, integrated accesses to messaging and content;
- growth of the Italian BroadBand market on both Fixed and Mobile Telecommunications;
- development of innovative services such as integrated voice-BroadBand (double play) and integrated voice-BroadBand-IPTV (triple play);
- growth of the ICT Market through the introduction of new services and products;
- the full implementation of the open Access network increasing transparency and access to the fixed network by OLOs.

*Brazil*

- Tim Participações S.A. will consolidate the Company's competitive positioning, especially in the corporate segment and data transmission offerings, reducing media lease costs and promoting the 3G network development also thanks to the merger, on December 30, 2009, with Holdco Participações Ltda, a company that had the 100% of the capital stock of Intelig Telecomunicações

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Ltda. Intelig is a company with a strong metropolitan network of optical fibers in the largest Brazilian cities, plus an extensive long-distance network infrastructure (Backbone).

### 5.3.2 REORGANIZATION OF BUSINESS

The data of the Telecom Italia Group is presented in this 2009 Annual Report according to the following operating segments:

- **Domestic Business Unit:** includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the relative support activities;
- **Brazil Business Unit:** includes telecommunications operations in Brazil;
- **Media Business Unit:** includes television network operations and management;
- **Olivetti Business Unit:** includes activities for the manufacture of digital printing systems and office products; and
- **Other operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Furthermore, as a result of including HanseNet in Discontinued operations in 2009, the European BroadBand Business Unit is no longer presented as a separate segment. The other companies of that business unit have become part of Other operations. For purposes of comparison, the separate consolidated income statement, the consolidated statement of comprehensive income and the consolidated statements of cash flows data have been appropriately restated for the various comparative periods.



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For a complete description of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units . For purposes of the following discussion selected financial data of each Business Unit has been provided for 2009, 2008, and 2007 consistent with the structure of each Business Unit at December 31, 2009.

**5.3.3 NON-GAAP FINANCIAL MEASURES**

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures ( **Non-GAAP Measures** ).

Such financial data is considered Non-GAAP financial measures as defined in Item 10 of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measures used relate to Net Financial Debt.

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**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	<b>As of December 31, 2008</b>	
	<b>2009</b>	<b>(Restated)</b>
	<b>(millions of euros)</b>	
<b>GROSS FINANCIAL DEBT</b>		
<b>Non-current financial liabilities (Long-term debt)</b>		
Bonds	26,369	25,680
Amounts due to banks, other financial payables and liabilities	8,818	9,134
Finance lease liabilities	1,565	1,713
	<b>36,752</b>	<b>36,527</b>
<b>Current financial liabilities (Short-term debt), excluding financial liabilities relating to Discontinued operations/Non-current assets held for sale</b>		
Bonds	3,667	4,497
Amounts due to banks, other financial payables and liabilities	3,069	1,496
Finance lease liabilities	250	274
	<b>6,986</b>	<b>6,267</b>
<b>Financial liabilities relating to Discontinued operations/Non-current assets held for sale</b>	<b>659</b>	
<b>GROSS FINANCIAL DEBT (A)</b>	<b>44,397</b>	<b>42,794</b>
<b>FINANCIAL ASSETS</b>		
<b>Non-current financial assets</b>		
Securities other than investments	15	15
Financial receivables and other financial assets	1,092	2,648
	<b>1,107</b>	<b>2,663</b>
<b>Current financial assets, excluding financial assets relating to Discontinued operations/Non-current assets held for sale</b>		
Securities other than investments	1,843	185
Financial receivables and other current financial assets	1,115	491
Cash and cash equivalents	5,504	5,416

	<b>8,462</b>	<b>6,092</b>
<b>Financial assets relating to Discontinued operations/Non-current assets held for sale</b>	<b>81</b>	
<b>FINANCIAL ASSETS (B)</b>	<b>9,650</b>	<b>8,755</b>
<b>NET FINANCIAL DEBT (A-B)</b>	<b>34,747</b>	<b>34,039</b>

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**5.3.4 OVERVIEW OF 2009 RESULTS OF OPERATIONS**

In 2009, we achieved the following in our domestic market:

- in the **Domestic Fixed Telecommunications Services Business** BroadBand and ICT were the two areas of growth. In particular in the BroadBand business the strategy premised on attracting the most valuable customers progressed: the BroadBand portfolio at the end of December 2009 had around 7 million accesses. In addition, we launched new integrated solutions such as VoIP services (offers that included the first naked triple-play offer): Alice Casa reached approximately 620,000 accesses at December 31, 2009 and a penetration of approximately 9% of the overall BroadBand customer base.

In the ICT segment we posted approximately 10% growth year over year (of which 14% growth in services, accounting for 61% of revenues mix) due to specific turn-key offers for the Corporate and SME segment.

In the traditional Telephone business, we have been affected by a significant decrease in our customer base and traffic volumes due to increased competition. It is worth noting, however, that in the fixed line access business, where we retain a 71% market share, we strongly reduced line losses compared to 2008 (1,254 thousand line losses in 2009 compared to 1,861 thousand line losses in 2008).

In the traditional telephone business the main strategy is to increase penetration of flat-rate voice packages and the proposition of the quoted integrated voice-BroadBand offers.

- In the **Domestic Mobile Telecommunications Services** our strategy to increase customer portfolio value by focusing on services rather than on handset revenues; the number of mobile handsets sold fell significantly from 7.9 million in 2008 to approximately 4.8 million in 2009 (posting a 44% decline in the related revenues year on year). The decline was attributable to a reduction in the level of subsidies offered to customers which improved the profit margins for new customers. This change in sales strategy was partially responsible for the decline in customers in 2009. At the same time we protected our mobile broadband active portfolio, resulting in approximately 5 million web (+ blackberry) and wap users (+34% year on year).

In 2009, we achieved the following with respect to our international markets:

- **Brazil.** Tim Brasil's customer base grew in 2009 (+4.7 million clients compared to 2008), with its market share stabilizing after 18 months of continuing erosion at 23.6%. In terms of Value Market Share (share in service revenues) Tim Brasil was the second Brazilian mobile operator (26%). Tim Brasil also reversed the trend of post-paid clients that in 2009 accounted for 15.7% (18.1% in 2008) of the total subscriber base, with 6,452 thousand post-paid customers.

Tim Brasil continued to focus on growth together with cost discipline through initiatives to maintain ARPU (average revenue per user) levels, increase revenue from value-added services, increase traffic volumes/usage and network service quality. On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analyses and operating expenses.



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The following table sets forth the separate consolidated income statement for the years ended December 31, 2009, 2008 and 2007.

	Year ended December 31,		
	2009	2008 (Restated) (millions of euros)	2007 (Restated)
Revenues	27,163	29,000	29,802
Other income	282	336	383
<b>Total operating revenues and other income</b>	<b>27,445</b>	<b>29,336</b>	<b>30,185</b>
Acquisition of goods and services	(11,480)	(13,120)	(13,442)
Employee benefits expenses	(3,734)	(4,114)	(3,715)
Other operating expenses	(1,616)	(1,631)	(2,268)
Changes in inventories	(15)	113	11
Internally generated assets	515	506	524
Depreciation and amortization	(5,551)	(5,676)	(5,518)
Gains (losses) on disposals of non-current assets	(59)	35	5
Impairment reversals (losses) on non-current assets	(12)	(12)	(44)
<b>Operating profit</b>	<b>5,493</b>	<b>5,437</b>	<b>5,738</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	67	64	86
Other income (expenses) from investments	(51)	4	479
Finance income	2,561	3,748	2,912
Finance expenses	(4,731)	(6,359)	(5,095)
<b>Profit before tax from continuing operations</b>	<b>3,339</b>	<b>2,894</b>	<b>4,120</b>
Income tax expense	(1,121)	(677)	(1,661)
<b>Profit from continuing operations</b>	<b>2,218</b>	<b>2,217</b>	<b>2,459</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	(622)	(39)	(99)
<b>Profit for the year</b>	<b>1,596</b>	<b>2,178</b>	<b>2,360</b>
<i>Attributable to:</i>			
· <i>Owners of the Parent</i>	<i>1,581</i>	<i>2,177</i>	<i>2,353</i>
· <i>Non-controlling interests</i>	<i>15</i>	<i>1</i>	<i>7</i>

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The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

Owing to the sale of the BroadBand business in Germany, which was completed on February 16, 2010, HanseNet was classified in Discontinued Operations while the other companies in the European BroadBand Business Unit have become part of Other Operations. Consequently, the data relating to 2008 and 2007 have been reclassified and presented consistently with the 2009 presentation.

		Domestic	Brazil	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of euros, except number of employees)						
Revenues(1)	2009	21,662	5,022	230	350	158	(259)	27,163
	2008(2)	23,227	5,208	287	352	218	(292)	29,000
	2007(2)	24,034	4,990	263	408	328	(221)	29,802
Operating profit (loss)	2009	5,394	209	(80)	(19)	(34)	23	5,493
	2008(2)	5,405	189	(113)	(37)	(15)	8	5,437
	2007(2)	5,660	150	(117)	(66)	59	52	5,738
Capital expenditures	2009	3,523	964	53	4	8	(9)	4,543
	2008(2)	3,658	1,348	50	3	26	(45)	5,040
	2007(2)	4,064	865	69	8	30	(5)	5,031
Number of employees at year-end(3)	2009	58,736	9,783	757	1,098	1,010		71,384
	2008(2)	61,816	10,285	967	1,194	1,058		75,320
	2007(2)	64,362	10,030	1,016	1,279	2,551		79,238

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

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- (2) The data for the years ended December 31, 2008 and 2007 have been restated as a result of the correction of errors due to the Telecom Italia Sparkle case and the changes in accounting principles (IFRIC 13) as well as for comparison purposes.
- (3) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.



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**5.3.6 YEAR ENDED DECEMBER 31, 2009 COMPARED WITH YEAR ENDED DECEMBER 31, 2008**

The following chart summarizes the main items which impacted profit attributable to owners of the Parent in 2009:

**v REVENUES**

**Revenues** amounted to 27,163 million euros in 2009, a decrease of 1,837 million euros, or 6.3%, compared to 29,000 million euros in 2008.

The table below sets forth for the periods indicated gross revenues and consolidated revenues by Business Unit.

	2009		Year ended December 31, 2008 (Restated)		Changes	
	Gross revenues(1) (a)	% of Consolidated revenues	Gross revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	21,662	79.7	23,227	80.1	(1,565)	(6.7)
Brazil	5,022	18.5	5,208	18.0	(186)	(3.6)
Media, Olivetti and Other Operations(2)	738	2.7	857	3.0	(119)	(13.9)
<i>Adjustments and eliminations</i>	<i>(259)</i>	<i>(0.9)</i>	<i>(292)</i>	<i>(1.1)</i>	<i>33</i>	<i>11.3</i>
<b>Total Revenues</b>	<b>27,163</b>	<b>100%</b>	<b>29,000</b>	<b>100%</b>	<b>(1,837)</b>	<b>(6.3)</b>

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

For the domestic market, Telecom Italia Group has adopted a new *customer centric* organization; this change involved a new manner of representing the Domestic Business Unit. For more details, please see 4.2 Business Units 4.2.1 Domestic .



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The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) was adversely impacted by the weak domestic economy in 2009, although the reduction in fixed telephone market revenues was less affected than the mobile telephone business where revenues have fallen compared to the previous year.

In particular, the change in Core Domestic Revenues during 2009 reflects the following:

- a contraction in Consumer segment revenues (-1,196 million euros, -9.8%), attributable in part to business areas with low margins (in particular: mobile segment product revenues -407 million euros and mobile segment content revenues -61 million euros) while growth was reported for Broadband in both fixed (+114 million euros, +13%) and mobile (+42 million euros, +12%) areas;
- a fall in Business segment revenues (-394 million euros, -9.6%), which, to a greater extent than the other markets, was hurt by the decline in consumption owing to the weak economic conditions during 2009 and the contrasting impact of competition in the fixed telephony area, particularly regarding Telecom Italia's customer win-back procedure. Nevertheless, positive trends were seen in the stability of fixed internet revenues and growth in mobile browsing revenues;
- a limited reduction in the Top segment (-3.4%) driven by strong growth in ICT solutions (+15.3%), stable mobile revenues, offset by a decrease in revenues in the fixed line business; and
- a significant increase in the National Wholesale segment (+258 million euros, +14.8%) generated by the growth of the customer base of alternative operators.

With respect to the Brazil Business Unit, revenues totaled 5,022 million euros in 2009, 186 million euros lower than in 2008. The positive trend in VAS revenues, attributable to growth in the customer base (+4.7 million lines compared to the end of 2008) was offset by the fall in sales of handsets and products.

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

v **OTHER INCOME**

Details are as follows:

	Year ended December 31,			
	2009	2008	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	71	86	(15)	(17.4)

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Recovery of costs for employees, purchases and services rendered	46	51	(5)	(9.8)
Capital and operating grants	49	42	7	16.7
Damage compensations, penalties and sundry recoveries	30	64	(34)	(53.1)
Sundry income	86	93	(7)	(7.5)
<b>Total other income</b>	<b>282</b>	<b>336</b>	<b>(54)</b>	<b>(16.1)</b>

v **OPERATING EXPENSES**

Our operating expenses amounted to 21,952 million euros in 2009, a reduction of -8.1% compared to 23,899 million euros in 2008 (-1,947 million euros). The decrease is attributable to the following:

- **Acquisition of goods and services** amounted to 11,480 million euros in 2009, a decrease of 1,640 million euros, or -12.5% compared to 2008 (13,120 million euros) partly due to favorable exchange rates (the Brazilian real and the Euro) related to the Brazil Business Unit (-99 million euros). There was a reduction of costs across all areas of expenses (commercial and advertising costs increased slightly), particularly with respect to the portion of revenues to be paid to other operators and purchases of goods by the Domestic Business Unit and the Brazil Business Unit.

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In detail:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	<b>(millions of euros, except percentages)</b>			
Acquisition of raw materials and merchandise	1,852	2,707	(855)	(31.6)
Portion of revenues to be paid to other operators and interconnection costs	4,282	4,927	(645)	(13.1)
Commercial and advertising costs	2,012	1,971	41	2.1
Power, maintenance and outsourced services	1,254	1,280	(26)	(2.0)
Rent and leases	572	572		
Other service expenses	1,508	1,663	(155)	(9.3)
<b>Total acquisition of goods and services</b>	<b>11,480</b>	<b>13,120</b>	<b>(1,640)</b>	<b>(12.5)</b>
<i>% on Revenues</i>	42.3	45.2		

**Employee benefits expenses**

Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	<b>(millions of euros, except percentages)</b>			
<b>Employee benefits expenses Italian companies:</b>				
Expenses and costs of Ordinary employees	3,467	3,518	(51)	(1.5)
Expenses for collective dismissal procedure (mobility) under Law 223/91		292	(292)	(100)
<b>Total employee benefits expenses Italian companies</b>	<b>3,467</b>	<b>3,810</b>	<b>(343)</b>	<b>(9.0)</b>
<b>Total employee benefits expenses Foreign companies</b>	<b>267</b>	<b>304</b>	<b>(37)</b>	<b>(12.2)</b>
<b>Total employee benefits expenses</b>	<b>3,734</b>	<b>4,114</b>	<b>(380)</b>	<b>(9.2)</b>
<i>% on Revenues</i>	13.7	14.2		

The decrease of 51 million euros in the Italian component of ordinary employee benefit expenses was mainly due to lower costs arising from the reduction in the average number of the salaried workforce (-2,821 units compared to 2008, within the same scope of consolidation). The reduction was offset by the continuing effect of the increase in the minimum labor contract terms from June 2008 and the effect of the renewal of the TLC collective national labor contract in October 2009.

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In particular, employee benefits expenses in 2008 included the expenses for mobility agreements under Law 223/91 applying to collective dismissals (292 million euros) related to the Parent Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A., Olivetti S.p.A. and Olivetti I-Jet S.p.A.

With respect to the Group's foreign companies, ordinary employee benefits expenses decreased by 37 million euros due to a decrease in the number of average workforce (-352 units compared to 2008, within the same scope of consolidation) and positive exchange rate effects of the Brazil Business Unit (-8 million euros) as well as the exclusion from the scope of consolidation of Entel Bolivia Group (-4 million euros).

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The Group's average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	(equivalent number, except percentages)			
Average salaried workforce Italy	60,324	63,145	(2,821)	(4.5)
Average salaried workforce Foreign(1)	9,640	10,363	(723)	(7.0)
<b>Total average salaried workforce(2)</b>	<b>69,964</b>	<b>73,508</b>	<b>(3,544)</b>	<b>(4.8)</b>
Non-current assets held for sale Foreign(3)	2,168	3,277	(1,109)	(33.8)
<b>Total average salaried workforce including Non-current assets held for sale</b>	<b>72,132</b>	<b>76,785</b>	<b>(4,653)</b>	<b>(6.1)</b>

- (1) The change compared to 2008 takes into account the exclusion of Entel Bolivia group's average headcount of 371 employees.
- (2) The total includes people with temporary work contracts 316 average employees in 2009 (of which 279 average employees in Italy and 37 average foreign employees); 1,073 average units in 2008 (of which 1,013 average employees in Italy and 60 average foreign employees).
- (3) The 2009 data include the average salaried headcount of HanseNet (2,168 units); in 2008 included the average salaried headcount of HanseNet (2,520 units) and the Liberty Surf Group, sold at the end of August 2008 (757 units).

Group's employees at December 31, 2009 and 2008 were as follows:

	As of December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	(units, except percentages)			
Employees Italy	60,872	64,242	(3,370)	(5.3)
Employees Foreign	10,512	11,078	(566)	(5.1)
<b>Total Employees(1)</b>	<b>71,384</b>	<b>75,320</b>	<b>(3,936)</b>	<b>(5.2)</b>
Non-current assets held for sale Foreign	2,205	2,505	(300)	(12.0)
<b>Total Employees including Non-current assets held for sale</b>	<b>73,589</b>	<b>77,825</b>	<b>(4,236)</b>	<b>(5.4)</b>

- (1) Includes employees with temporary work contracts: 56 units at December 31, 2009 (of which 43 units in Italy and 13 Foreign units); and 782 units at December 31, 2008 (of which 721 units in Italy and 61 Foreign units).

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

### Other operating expenses

Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Impairments and expenses in connection with credit management	565	687	(122)	(17.8)
Accruals to provisions	168	74	94	127.0
Indirect duties and taxes	128	139	(11)	(7.9)
TLC operating fees	318	315	3	1.0
Taxes on revenues of Brazilian companies	271	282	(11)	(3.9)
Penalties, compensation and administrative sanctions	73	63	10	15.9
Association dues and fees, donations, scholarships and traineeships	26	26		
Sundry expenses	67	45	22	48.9
<b>Total other operating expenses</b>	<b>1,616</b>	<b>1,631</b>	<b>(15)</b>	<b>(0.9)</b>
<i>% on Revenues</i>	5.9	5.6		



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The reduction in other operating expenses in 2009 compared to 2008, was partially connected with the exchange rates of the Brazil Business Units (-29 millions euros).

In particular, impairments and expenses in connection with credit management consisted of 404 million euros attributable to the Domestic Business Unit (402 million euros in 2008) and 153 million euros to the Brazil Business Unit (280 million euros in 2008).

Accruals to provisions, recorded mainly for pending disputes, included 136 million euros relating to the Domestic Business Unit (31 million euros in 2008) and 25 million euros relating to the Brazilian Business Unit (36 million euros in 2008).

**Depreciation and Amortization**

Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	2,251	2,324	(73)	(3.1)
Depreciation of tangible assets owned and leased	3,300	3,352	(52)	(1.6)
<b>Total depreciation and amortization</b>	<b>5,551</b>	<b>5,676</b>	<b>(125)</b>	<b>(2.2)</b>
<i>% on Revenues</i>	<i>20.4</i>	<i>19.6</i>		

The reduction in depreciation and amortization charges was mainly related to the Domestic Business Unit (-116 million euros) and, for the remaining balance, the net effect between the change in the Brazilian real/euro exchange rate (-34 million euros) and higher depreciation and amortization charges of the Brazil Business Unit.

**Net losses on disposals of non-current assets**

Net losses on disposals of non-current assets were 59 million euros in 2009 (35 million euros of net gains on disposal of non-current assets in 2008) and include:

- a 39 million euros loss connected with the final divestiture of the credit management software developed for the fixed consumer clientele of the Domestic Business Unit;

· a loss of 11 million euros on the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A.

In 2008, net gains on disposals of non-current assets included net gains of 9 million euros mainly attributable to the disposal of the Pay-per-View business segment by Telecom Italia Media in addition to other net gains mainly on the sale of real properties.

· **Impairment losses on non-current assets** amounted to 12 million euros in 2009 (12 million euros in 2008). 2009 included 6 million euros for the impairment loss attributable to goodwill, within Other Operations, of the consolidated company BBNet following impairment testing and the remaining impairment losses were mainly taken by the Domestic Business Unit.

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

#### v **OPERATING PROFIT**

**Operating profit** was 5,493 million euros in 2009, an increase of 56 million euros compared to 2008 (1.0%). As a percentage of revenues, operating profit was 20.2% in 2009 (18.7% in 2008).

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Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
ETECSA.	54	53	1	1.9
Other	13	11	2	18.2
<b>Total</b>	<b>67</b>	<b>64</b>	<b>3</b>	<b>4.7</b>

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.5 International Investments , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**V OTHER INCOME (EXPENSES) FROM INVESTMENTS**

Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
Dividends from other investments	2	3	(1)	(33.3)
Net gains on disposal of other investments	4	2	2	100
Writedowns of Italtel group	(39)		(39)	
Writedowns of other investments and other income expenses	(18)	(1)	(17)	
<b>Total</b>	<b>(51)</b>	<b>4</b>	<b>(55)</b>	

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

## v FINANCE INCOME (EXPENSES)

Details are as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Fair value measurement of call options for 50% of Sofora Telecomunicaciones share capital.	60	(190)	250	131.6
Income on bond buybacks		62	(62)	(100)
Early termination of cash flow derivatives	22	19	3	15.8
Writedown of receivables from Lehman Brothers		(58)	58	100
Accrual to provisions for interest (Telecom Italia Sparkle case)	(10)	(10)		
Net finance expenses, fair value adjustments of derivatives and underlyings and other items	(2,242)	(2,434)	192	7.9
<b>Total</b>	<b>(2,170)</b>	<b>(2,611)</b>	<b>441</b>	<b>16.9</b>

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

- the overall reduction in interest rates and the decrease in debt exposure and an improvement, compared to the previous year, of the impact in the fair value adjustments of the positions qualifying for hedge accounting;
- the improvement in the fair value measurement of the call options on Sofora;
- 2008 included the writedown of receivables from Lehman Brothers International Europe Ltd and Lehman Brothers Special Financing Inc., arising on transactions in derivative instruments hedging financial risks on existing financial liabilities; and
- lower income on bond buybacks. Such bond repurchase transactions, although having no impact in terms of finance income (expenses) in 2009 (income of 62 million euros in 2008), will give rise to lower finance expenses prospectively and constitutes an efficient alternative investment of liquidity.

Furthermore, in 2009, net finance expenses included an accrual of 10 million euros (10 million euros in 2008) to the provision for risks and charges due to the Telecom Italia Sparkle case . See Section 5.1 Restatement Due to Errors .

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **INCOME TAX EXPENSE**

Income tax expense amounted to 1,121 million euros, an increase of 444 million euros compared to 677 million euros in 2008. 2008 benefited from the positive effect of 515 million euros due to the tax realignment of off-book deductions carried out by some Group companies pursuant to Law 244 of December 24, 2007 and the recognition of 60 million euros of deferred tax assets which became recoverable by some Group companies.

Net of this effect, income taxes posted would have declined by 131 million euros in 2009 compared to the prior year due to the following:

- lower taxes for Telecom Italia in 2009 of 143 million euros due mainly to the filing of an application for the reimbursement of prior years IRES taxes corresponding to 10% of deductible IRAP taxes, pursuant to Legislative Decree 185 of November 29, 2008, art. 6, as well as lower taxes of the prior year;
- higher 2009 income taxes (12 million euros) due mainly to a higher tax base for Telecom Italia.

v **LOSS FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

In 2009, this line item was a loss of 622 million euros and included:

- the writedown of the goodwill allocated to Broadband activities in Germany, accruals to provisions and other expenses relating to the disposal, on February 16, 2010, of the entire investment held in HanseNet Telekommunikation GmbH (-597 million euros);
- the negative contribution on consolidation of HanseNet of 23 million euros including the negative impacts of the amortization of the customer relationship and the audience agreement which resulted from the acquisition of the AOL internet business in Germany;
- additional expenses connected with sales transactions in previous years (-2 million euros).

In 2008, loss from discontinued operations/non-current assets held for sale was a loss of 39 million euros and included:

- the net impact of the sale of Liberty Surf group S.A.S., being the balance between the gain on the disposal and the company's negative contribution to the consolidated result (-28 million euros);
- HanseNet's negative contribution on consolidation, including an impairment loss on goodwill of 21 million euros and the net contribution of the company to the consolidated result (for a total of -10 million euros);
- additional expenses connected with sales transactions in previous years (-1 million euros).

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In detail, the reconciliation of Profit (loss) from Discontinued operations/Non current assets held for sale and the main economic and financial data of HanseNet, was as follows:

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
(millions of euros, except percentages)				
<b>HanseNet economic impacts:</b>				
Revenues	1,161	1,190	(29)	(2.4)
Operating profit	(6)	8	(14)	
· % of Revenues	(0.5)	0.7		
Finance Income (expenses)	(24)	(33)	9	
Profit before tax from Discontinued operations/Non-current assets held for sale	(30)	(25)	(5)	
Income tax expense	7	36	(29)	
<b>Profit from Discontinued operations/Non-current assets held for sale (A)</b>	<b>(23)</b>	<b>11</b>	<b>(34)</b>	
<b>Other economic impacts:</b>				
Impairment loss on goodwill attributed to HanseNet and expenses incidental to the sale	(597)	(21)	(576)	
Net impact related to Liberty Surf		(28)	28	
Expenses connected with sales in prior years	(2)	(1)	(1)	
<b>(B)</b>	<b>(599)</b>	<b>(50)</b>	<b>(549)</b>	
<b>Profit (Loss) from Discontinued operations/Non-current assets held for sale (A+B)</b>	<b>(622)</b>	<b>(39)</b>	<b>(583)</b>	

**5.3.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2009 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2008****v DOMESTIC**

With respect to the new customer centric organization which the Telecom Italian Group has adopted for the domestic market, the manner of representing the Domestic Business Unit has changed from the one presented in the 2008 Annual Report in which such information had been organized by fixed and mobile technology businesses. For further details regarding the new customer centric organization please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.1 Domestic .

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%

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	(millions of euros, except percentages and employees)			
Revenues	21,662	23,227	(1,565)	(6.7)
Operating profit	5,394	5,405	(11)	(0.2)
· % of Revenues	24.9	23.3		
Capital expenditures	3,523	3,658	(135)	(3.7)
Employees at year-end (units)	58,736	61,816	(3,080)	(5.0)

**Revenues** decreased by 1,565 million euros, or 6.7%, from 23,227 million euros in 2008 to 21,662 million euros in 2009.



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In detail, an analysis of the Domestic Business Unit's revenues by market segment is as follows:

· **Core Domestic**

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues(1)	20,579	22,104	(1,525)	(6.9)
· <i>Consumer</i>	10,999	12,195	(1,196)	(9.8)
· <i>Business</i>	3,730	4,124	(394)	(9.6)
· <i>Top</i>	3,688	3,819	(131)	(3.4)
· <i>National Wholesale</i>	1,996	1,738	258	14.8
· <i>Other</i>	166	228	(62)	(27.2)
Operating profit	5,190	5,163	27	0.5
· <i>% of Revenues</i>	25.2	23.4		
Capital expenditures	3,434	3,501	(67)	(1.9)
Employees at year-end (units)	57,467	60,539	(3,072)	(5.1)

(1) Data are net of intersegment relationship.

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

· **Consumer:** during 2009, the commercial policy of the mobile business underwent a fundamental transformation. In particular, the difficult macroeconomic climate resulted in a drop in usage by some parts of the customer base together with an increasingly competitive market required a rapid repositioning of TIM's offerings. From the traditional focus on the mobile handset as the important driver of choice by the final customer and promotion of the commercial network, there was a shift to a policy aimed at effective advertising communication, on service packages that further retain customers and a remuneration of the distribution channel linked to the quality of the customer acquired.

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

· **Business:** the decrease in revenues (-394 million euros compared to 2008 or -9.6%) was mainly due to continuing economic difficulties encountered in 2009 by small and medium businesses resulting in a reduction of usage. In addition, there was a contraction in the

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Customer Base: less significant than the prior year in the Fixed area but a significant increase in the Mobile area. There was a reduction in revenues in both areas: Fixed -11% and Mobile -9%, although the fourth quarter of 2009 had a lower decrease compared to the 2009 third quarter. Positive trends, however, were seen in the comparison of the two years as Fixed Broadband revenues were stable, Fixed Data Services grew (+3%) and mobile browsing revenues also increased (+16%);

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

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

· **International Wholesale**

	Year ended December 31, 2008			
	2009 (a)	(Restated) (b)	Change (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	1,710	1,830	(120)	(6.6)
· Of which third parties	1,208	1,267	(59)	(4.7)
Operating profit	209	236	(27)	(11.4)
· % of Revenues	12.2	12.9		
Capital expenditures	122	163	(41)	(25.2)
Employees at year-end (units)	1,269	1,277	(8)	(0.6)

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

\* \* \*

In addition to the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below.

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

Market segment	Year ended December 31, 2008 (Restated)								
	2009			2008 (Restated)			Change %		
	Total	Fixed(1)	Mobile(1)	Total	Fixed(1)	Mobile(1)	Total	Fixed(1)	Mobile(1)
	(millions of euros, except percentages)								
Consumer	10,999	5,037	6,251	12,195	5,285	7,270	(9.8)	(4.7)	(14.0)
Business	3,730	2,472	1,315	4,124	2,765	1,440	(9.6)	(10.6)	(8.7)
Top	3,688	2,956	823	3,819	3,053	824	(3.4)	(3.2)	(0.1)
National Wholesale	1,996	2,758	194	1,738	2,320	107	14.8	18.9	81.3
Other (support structures)	166	174	14	228	162	46	(27.2)	7.4	(69.6)
<b>Total Core Domestic</b>	<b>20,579</b>	<b>13,397</b>	<b>8,597</b>	<b>22,104</b>	<b>13,585</b>	<b>9,687</b>	<b>(6.9)</b>	<b>(1.4)</b>	<b>(11.3)</b>
International Wholesale	1,710	1,710		1,830	1,830		(6.6)	(6.6)	
Eliminations	(627)	(368)		(707)	(415)				
<b>Total Domestic</b>	<b>21,662</b>	<b>14,739</b>	<b>8,597</b>	<b>23,227</b>	<b>15,000</b>	<b>9,687</b>	<b>(6.7)</b>	<b>(1.7)</b>	<b>(11.3)</b>

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

The performance of the major business areas was as follows:

· **Revenues from Fixed Telecommunications**

In 2009, revenues of the fixed telecommunications area amounted to 14,739 million euros, decreasing 261 million euros (-1.7%) compared to the prior year.

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

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

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The trend for the main types of revenues from Fixed telecommunications was as follows.

Retail voice

	2009		Year ended December 31, 2008 (Restated)		Change	
	millions of euros	%	millions of euros	%	millions of euros	%
	(millions of euros, except percentages)					
Traffic	2,726	40.1	3,118	41.4	(392)	(12.6)
Accesses	3,491	51.3	3,668	48.8	(177)	(4.8)
VAS services	207	3.0	252	3.3	(45)	(17.9)
Telephone products	380	5.6	486	6.5	(106)	(21.8)
<b>Total Retail Voice</b>	<b>6,804</b>	<b>100.0</b>	<b>7,524</b>	<b>100.0</b>	<b>(720)</b>	<b>(9.6)</b>

Retail voice revenues, in all business areas, reflect the continuing reduction in the customer base and traffic volumes due to the competitive environment in which the company operates. Combined with a smaller customer base, revenues were adversely affected by a reduction of regulated fixed-mobile termination rates and the discontinuance of certain mandatory or voluntary Premium services (offered by the company on a mandatory or voluntary basis). As a result, VAS service revenues decreased by 45 million euros compared to 2008. The economic impact in terms of lower revenues from the decline in accesses (-177 million euros), was only partially offset by the increase in subscriber charges which came into effect on February 1, 2009, for the domestic business. The expansion of national wholesale services (+170 million euros for regulated intermediate services such as Local Loop Unbundling and Wholesale Line Rentals) offset in part some of these declines.

Internet

	2009		Year ended December 31, 2008		Change	
	millions of euros	%	millions of euros	%	millions of euros	%
	(millions of euros, except percentages)					
<b>Total Internet</b>	<b>1,707</b>	<b>100</b>	<b>1,630</b>	<b>100</b>	<b>77</b>	<b>4.7</b>
<i>of which content/portal</i>	<i>144</i>	<i>8.4</i>	<i>120</i>	<i>7.4</i>	<i>24</i>	<i>20.0</i>

Revenues from internet were 1,707 million euros, increasing 77 million euros compared to 2008. The Narrowband component continues to decline and now represents only about 2% of total revenues. The total domestic retail broadband access portfolio in the domestic market reached around 7.0 million accesses, growing 246,000 accesses compared to the end of 2008. Flat-rate packages now account for 83.0% of the total retail broadband customer portfolio (77% at year-end 2008). IPTV services continue to gain ground in the Consumer market (the portfolio has 401,000 customers, +72,000 compared to the end of 2008) and the Virgilio portal Web packages and activities grew. The Alice Casa offering has a portfolio of 621,000 customers (+503,000 compared to December 31, 2008) and accounts for 8.9% of the broadband portfolio compared to 1.7% at December 2008.

Business Data

	2009	Year ended December 31,		Change		
		%	2008 (Restated)	%	%	
(millions of euros, except percentages)						
Leased lines	190	11.0	198	11.5	(8)	(4.0)
Data transmission	505	29.2	552	32.1	(47)	(8.5)
Data products	204	11.8	211	12.3	(7)	(3.3)
ICT services	831	48.0	759	44.1	72	9.5
· <i>Of which ICT Services</i>	510		448		62	13.8
· <i>Of which ICT Products</i>	321		311		10	3.2
<b>Total Data Business</b>	<b>1,730</b>	<b>100.0</b>	<b>1,720</b>	<b>100.0</b>	<b>10</b>	<b>0.6</b>

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Revenues of the Business Data area rose by 10 million euros (+0.6%) compared to 2008. Growth in the packages offered for ICT services and products resulted in an increase in revenues of 72 million euros (+9.5%), mainly in the services area which grew by 13.8%. This increase offset declines in other areas of Business Data.

Wholesale

	2009	Year ended December 31,		Change		
		%	2008 (Restated)	%	%	
(millions of euros, except percentages)						
National Wholesale	2,888	70.1	2,459	65.1	429	17.4
International Wholesale(1)	1,229	29.9	1,318	34.9	(89)	(6.8)
<b>Total Wholesale</b>	<b>4,117</b>	<b>100.0</b>	<b>3,777</b>	<b>100.0</b>	<b>340</b>	<b>9.0</b>

(1) Includes sales to the third-party market and Domestic Mobile Telecommunications.

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

Revenues from national wholesale services increased by 429 million euros (+17.4%) compared to 2008. The change in wholesale revenues was related to the expansion of the customer base of alternative operators served through the various types of accesses.

**Revenues from Mobile Telecommunications**

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

Mobile telecommunications revenues totaled 8,597 million euros in 2009, decreasing by 1,090 million euros (-11.3%) compared to 2008. The new strategic direction which led to the strong contraction in mobile handsets sold as described in the preceding paragraph, resulted in a revenue decline (-44%). Mobile revenues also fell due to the effects of the anticipated decrease in regulated interconnection rates and the reduction in the customer base which primarily occurred in the first part of the year. Excellent results from mobile broadband plans made it possible to offset in part the declining trend of valued-added traditional services (SMS).

At December 31, 2009, the number of Telecom Italia mobile lines was approximately 30.8 million, a decline of 4.0 million compared to December 31, 2008. The reduction compared to December 31, 2008 can be attributed to greater selectivity in the sales policy focusing on

higher-value customers. This strategy was confirmed by the number of postpaid lines which reached about 20% of total lines compared to about 17% at December 31, 2008, as well as the termination of silent lines.

In detail the trend of the main types of revenues from Mobile telecommunications was as follows.

***Outgoing voice***

Outgoing voice revenues totaled 4,583 million euros in 2009, down by 386 million euros (-7.8%) compared to 2008, mainly as a result of the reduction in the customer base.

***Incoming voice***

Incoming voice revenues of 1,511 million euros in 2009 recorded a decrease of 173 million euros (-10.3%), compared to 2008, due mainly to the reduction of termination prices on the mobile network and to a lesser extent, the contraction in the customer base.

***Value-added Services (VAS)***

Value-added services (VAS) revenues amounted to 2,022 million euros in 2009, a decrease of 6.9% compared to 2008. Such decrease was primarily attributable to VAS content (ring tones, logos and games) following a drop in the usage of such services caused by the general economic weakness. The ratio of VAS revenues to revenues from services is about 25%, in line with the 2008 average.



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***Handset sales***

Handset sales revenues were 482 million euros in 2009, a decline of 378 million euros compared to 2008. The reduction is due to a decrease in the total handsets sold owing principally to a more selective sales policy that rationalized the product portfolio and focused on quality (higher percentage of advanced handsets and devices using mobile internet) and the higher margins on these same handsets and devices.

**Operating profit**

Operating profit was 5,394 million euros in 2009, a decrease of 11 million euros (-0.2%) compared to the corresponding period of 2008. The Operating profit margin was 24.9% in 2009 (23.3% in 2008).

The Operating profit performance was impacted by the change in the following line items:

- *acquisition of goods and services* totaled 8,332 million euros in 2009, a reduction of 1,317 million euros (-13.6%) compared to the same period of 2008. The change was mainly due to a decrease in the amount to be paid to other operators, partly following the reduction in the termination rates of voice calls on the network of other operators from the fixed and mobile network, and lower purchases of products for resale, in addition to keeping commercial expenses in check, particularly those related to customer acquisition. Such decrease was connected with the Group's strategy of focusing on higher-value customers; and
- *employee benefits expenses* of 3,327 million euros in 2009, represented a decrease of 311 million euros compared to 2008. In 2008, 287 million euros was provided in connection with the collective dismissal procedure (mobility) under Law 223/91. Excluding such effect, employee benefits expenses recorded a decrease of 24 million euros in 2009; the contraction in the average headcount (-2,576 units compared to 2008) was mainly offset by the effect of the June 2008 increase in minimum salaries established by the TLC collective national labor contract and in October 23, 2009, the renewal of TLC collective national labor contract.

Apart from the factors above mentioned, the Operating profit performance can be attributed to:

- lower *depreciation and amortization charges* of 116 million euros in 2009 (largely due to the reduction in amortizable assets); and
- net losses on disposals of non-current assets for 69 million euros.

In addition, during 2009, the credit management software for fixed consumer clientele was disposed of since it was no longer considered usable in light of the new organizational structure of the Domestic Business Unit and the continuance of the fixed-mobile convergence process.

## Capital expenditures

Capital expenditures totaled 3,523 million euros in 2009, down by 135 million euros compared to 2008. The percentage of capital expenditures to revenues was 16.3% in 2009 (15.7% in 2008). The reduction in total expenditure is largely due to the optimization and the rationalization of capital expenditures for the Broadband Access network, Core Platform and Control, Service and Application Platform, as well as the lower commitments associated with handset packages (either rented or in connection with multi-year contracts) and the acquisition of WI-MAX licenses.

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

## Employees

Employees were 58,736 as of December 31, 2009, a reduction of 3,080 units compared to December 31, 2008.

## v BRAZIL

On December 30, 2009, Tim Participações finalized the acquisition of Intelig from JVCO Participações (a subsidiary of the Docas Group). Intelig is the domestic and international Brazilian telecommunications operator

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for long-distance and data transmission services. From an industrial standpoint, the acquisition is important to the Company's Brazilian operations as it will strengthen and complete the product offering and optimize resources due to the synergies generated by the integration of the two networks. Intelig possesses an important fiber optic network (about 15,000 kilometers) found in major Brazilian cities and has its own extensive carrier network (backbone).

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

The following table sets forth, for the periods indicated, certain financial and other data for the Brazil Business Unit.

			Year ended December 31,		Changes	
	2009	2008 (Restated)	2009	2008 (Restated)	(a-b)	%
	(millions of euros, except percentages and employees)		(a)	(b)	(millions of BRL, except percentages and employees)	
Revenues	5,022	5,208	13,907	13,951	(44)	(0.3)
Operating profit	209	189	580	507	73	14.4
· % of Revenues	4.2	3.6	4.2	3.6		
Capital expenditures	964	1,348	2,671	3,612	(941)	(26.1)
Employees at year-end (units)	9,783	10,285	9,783	10,285	(502)	(4.9)

**Revenues**

Revenues totaled 13,907 million Brazilian reais in 2009, -44 million Brazilian reais lower than in 2008 (-0.3%). Product revenues decreased from 1,087 million Brazilian reais in 2008 to 1,059 million Brazilian reais in 2009 (-2.6%). Service revenues declined from 12,864 million Brazilian reais in 2008 to 12,848 million Brazilian reais in 2009 (-0.1%). In this context, VAS revenues increased by 16.1% over the previous year, owing to the growth in data packages with broadband and services and content. The ARPU, average revenues per units was 28.2 Brazilian reais in December 2009, compared to 31.6 Brazilian reais in December 2008.

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

**Operating profit**

Operating profit amounted to 580 million Brazilian reais in 2009, an increase of 73 million Brazilian reais compared to 2008. This result was achieved by exercising a tight control over costs combined with an efficiency plan to generate resources to support the commercial relaunching of Tim Brasil. The cost components which grew in 2009 compared to 2008 were attributable to investments for the development of the business.

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

- *acquisition of goods and services* totaling 7,777 million Brazilian reais in 2009 (8,107 million Brazilian reais in 2008). The decrease compared to the previous year (-330 million Brazilian reais), is principally due to a reduction of 514 million Brazilian reais in acquisition of raw and ancillary materials, consumable stores and goods and a reduction of 489 million Brazilian reais in the portion in revenues paid to other TLC operators (2,623 million Brazilian reais in 2009 and 3,112 million Brazilian reais in 2008) partially offset by an increase of 536 million Brazilian reais for commissions, sales commission, other sales costs and advertising and promotion costs (a total amount of 2,145 million Brazilian reais in 2009 compared to 1,609 million Brazilian reais in 2008);
- *employee benefits expenses*, amounting to 574 million Brazilian reais in 2009, decreased by 52 million Brazilian reais compared to 2008 (-8.3 %) due to a variation in the composition and in the unit cost of the workforce. Average headcount went from 9,240 in 2008 to 8,900 units in 2009. The percentage of employee benefits expenses to revenues was 4.1% in 2009, -0.4 percent compared to the previous year 2008; and

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*other operating expenses*, amounting to 2,043 million Brazilian reais in 2009, decreased by 14.2% (2,381 million Brazilian reais in 2008) mainly as a result of the better performance in the collection of receivables related to postpaid customers. Such expenses consist of the following:

	Year ended December 31,			
	2009	2008	Changes	
	(a)	(Restated) (b)	(a-b)	%
	(millions of Brazilian reais)			
Impairments and expenses in connection with credit management	422	749	(327)	(43.7)
Accruals to provisions	70	96	(26)	(27.1)
TLC operating fees	735	700	35	5.0
Taxes on revenues	750	755	(5)	(0.7)
Indirect duties and taxes	33	41	(8)	(19.5)
Sundry expenses	33	40	(7)	(17.5)
<b>Total</b>	<b>2,043</b>	<b>2,381</b>	<b>(338)</b>	<b>(14.2)</b>

During 2009, negotiations were concluded with Embratel regarding the dispute that began in 2005 over long-distance traffic and interconnection. The settlement had a negative impact on operating profit of 64 million Brazilian reais along with the recognition of amounts payable by Embratel that had been disputed and that had already been recorded in Tim Participações' financial statements in the amount of 90 million Brazilian reais. In April 2009, following a burglary, an impairment loss was recorded on the San Paolo warehouse of 21 million Brazilian reais.

Furthermore, other costs incurred for the management and conclusion of the consolidation process of Intelig amounted to 10 million Brazilian reais.

Moreover, amortization and depreciation charges increased by 129 million Brazilian reais mainly in connection with the 3G license purchased in the second quarter of 2008, capital expenditures in respect of the new UMTS network and preserving the capacity and quality of the 2G network.

**Capital expenditures**

Capital expenditures were to 2,671 million Brazilian reais in 2009, a decrease of 941 million Brazilian reais compared to 2008, primarily due to the expense incurred in 2008 to acquire the 3G license for 1,239 million Brazilian reais.

**Employees**

Employees were 9,783 at December 31, 2009, a reduction of 502 people compared to December 31, 2008 (10,285 units). Employees at December 31, 2009 comprised 580 units referred to the new entrance of Intelig Telecomunicações Ltda in the scope of consolidation.

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	2009	Year ended December 31,		Changes	
	(a)	2008 (Restated) (b)	(a-b)	%	
	(millions of euros, except percentages and employees)				
Revenues	230	287	(57)	(19.9)	
Operating profit (loss)	(80)	(113)	33	29.2	
<i>% of Revenues</i>	<i>(34.8)</i>	<i>(39.4)</i>			
Capital expenditures	53	50	3	6.0	
Employees at year-end (units)	757	967	(210)	(21.7)	

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

	1.1	Year ended December 31		Changes	
		4.30.2009	2008	(a-b)	%
	(a)	(Restated)	(b)	(a-b)	%
	(millions of euros, except percentages)				
Revenues		3	81	(78)	(96.3)
Operating profit (loss)		(2)	(25)	23	92.0

The tables below for the years ended December 31, 2009 and 2008 has been recast to exclude the results relating to the Pay-per-View business and Telecom Media News:

	2009	Year ended December 31,		Changes	
		2008	(Restated)	(a-b)	%
	(a)	(b)	(a-b)		
	(millions of Euro, except percentages and employees)				
Revenues	227	215	12	5.6	
Operating profit (loss)	(68)	(97)	29	29.9	
<i>% of Revenues</i>	(29.9)	(45.1)			
Capital expenditures	53	48	5	10.4	
Employees at year-end (units)	757	856	(99)	(11.6)	

**Revenues**

Revenues amounted to 227 million euros in 2009, an increase of 12 million euros (5.6%) compared to 215 million euros in 2008. Such increase was due to:

- **revenues of Telecom Italia Media S.p.A.** in 2009, before intragroup eliminations, amounted to 114 million euros, an increase of 16 million euros (+16.7%) compared to 2008. Net advertising revenues showed an improvement of 11 million euros compared to 2008 (13.2%), sales of Digital Content for Telecom Italia grew (+6 million euros), and the other activities decreased by 1 million euros;
- **revenues of the MTV group**, amounting to 97 million euros in 2009, before intragroup eliminations, were down 14.3% (-17 million euros) compared to 2008 (114 million euros). This result was attributable to lower advertising revenues (-16 million euros); and
- **revenues relating to Network Operator activities**, before intragroup eliminations, amounted to 50 million euros in 2009, compared to 44 million euros in 2008 (11.9%). This result was principally due to higher revenues from the rental of bandwidths to third parties, offset in part by lower invoicing of digital bandwidth for the Pay-per-View activities that were sold to Dahlia TV at year-end 2008. The contract

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with Dahlia TV, which went through an initial experimental period in the first four months of 2009 in connection with the start-up phase, began to produce its full effects from the second quarter of 2009.

### **Operating profit (loss)**

Operating profit (loss) was a loss of 68 million euros in 2009 (-97 million euros in 2008), an improvement of 29 million euros.

In particular, operating loss of Telecom Italia Media S.p.A. decreased by 26 million euros compared to 2008 (-91 million euros). This improvement, besides the above higher revenues, can also be ascribed to lower La7 programming costs of 14 million euros, mainly concentrated in the entertainment sector (8 million euros), and recoveries of productivity.

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



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Operating profit relating to Network Operator activities improved by 5 million euros compared to 2008 and was attributable to the above-noted increase in revenues, net of higher operating costs.

**Capital expenditures**

Capital expenditures amounted to 53 million euros in 2009 (48 million euros in 2008). Such expenditures refer to Telecom Italia Media S.p.A., the MTV group and Telecom Italia Media Broadcasting for 27 million euros, 4 million euros and 22 million euros respectively, mostly for the acquisition of television rights extending beyond one year (25 million euros) and relate to the acquisition of infrastructures for the expansion and maintenance of the digital network (21 million euros).

**Employees**

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

**v OLIVETTI**

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	2009 (a)	Year ended December 31, 2008 (Restated)		Changes	
		(b)	(a-b)	%	
(millions of euros, except percentages and employees)					
Revenues	350	352	(2)	(0.6)	
Operating profit (loss)	(19)	(37)	18	48.6	
· % of Revenues	(5.4)	(10.5)			
Capital expenditures	4	3	1		
Employees at year-end (units)	1,098	1,194	(96)	(8.0)	

**Revenues**

Revenues were 350 million euros in 2009, down 2 million euros compared to 2008.

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Revenues were stable compared to 2008 despite the difficult economic conditions. With respect to quarterly results, the fourth quarter of 2009 recorded revenues of 131 million euros (100 million euros in the fourth quarter of 2008, or +31%). This was a significant turnaround compared to the contractions recorded in the three previous quarters (-8.3% in the third quarter of 2009 over the third quarter of 2008, -15.5% in the second quarter of 2009 over the second quarter of 2008 and -14.5% in the first quarter of 2009 over the first quarter of 2008).

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

Ink-jet products, recorded a 32% reduction in revenues due to lower sales of fax machines, multifunction printers and accessories.

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

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

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

In 2009 as compared to 2008, professional office products, copiers and related accessories posted a sharp reduction in terms of sales volumes in the black and white copier segment (-23%) and in the color copier segment (-10%), with an average price reduction of 9% on black and white machines and 5% on color machines.

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

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

**Operating profit (loss)**

Operating profit (loss) was a negative 19 million euros in 2009, an improvement of 18 million euros over the same period of the prior year.

The lower margin related to the fall in revenues was absorbed by a significant reduction of fixed overheads, the result of the effects of the reorganization. Considering also the impact of exchange rate fluctuations on sales in foreign currency to customers outside the EU and on purchases of merchandise and products in foreign currencies, the change in the U.S. dollar rate against the euro adversely affected Operating profit for a net amount of 3 million euros.

**Capital expenditures**

Capital expenditures amounted to 4 million euros in 2009, an increase of 1 million euros compared to the same period of 2008.

**Employees**

Employees were 1,098 (1,005 in Italy and 93 abroad) at December 31, 2009, a decrease of 96 units compared to December 31, 2008 (1,194 of whom 1,088 in Italy and 106 abroad).

## V INTERNATIONAL INVESTMENTS

## BBNED GROUP

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

The following table sets forth, for the periods indicated, certain financial and other data for the BBNed Group.

	2009	Year ended December 31,		Changes	
	(a)	2008 (Restated) (b)	(a-b)	%	
	(millions of euros, except percentages and employees)				
Revenues	87	84	3	3.6	
Operating profit (loss)	(5)	(17)	12	70.6	
· % of Revenues	(5.7)	(20.2)			
Capital expenditures	6	25	(19)	(76.0)	
Employees at year end (units)	347	407	(60)	(14.7)	

The key results for the year 2009 can be summarized as follows:

- **revenues** amounted to 87 million euros, 3 million euros higher than 2008 (+3.6%), due primarily to a greater contribution of revenues from retail ADSL services. The customer portfolio, standing at about 161,000 units at December 31, 2009, is approximately 5,000 lower compared to December 31, 2008;

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- **operating profit** was a negative 5 million euros in 2009, compared to a negative 17 million euros in 2008;
- **capital expenditures** totaled 6 million euros, decreasing 19 million euros compared to the prior year. The reduction can be attributed to capital expenditures in infrastructure (in 2008, significant network and information systems investments were made to expand the Alice package and fiber networks) and operating efficiency recoveries due to a rigid control over the return on investments;
- **employees** were 347 at December 31, 2009, a reduction of 60 units compared to December 31, 2008 and included 13 people with temporary work contracts (61 units at December 31, 2008).

**5.3.8 YEAR ENDED DECEMBER 31, 2008 COMPARED WITH YEAR ENDED DECEMBER 31, 2007**

The following chart summarizes the main items which impacted profit attributable to owners the Parent in 2008:

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v **REVENUES**

**Revenues** amounted to 29,000 million euros in 2008, a decrease of 802 million euros, or 2.7%, compared to 29,802 million euros in 2007.

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit.